UPDATED OFFICIAL STATEMENT
Dated April 20, 2006

NEW ISSUE – BOOK-ENTRY-ONLY

RATINGS: Fitch: "AAA"
Moody's: "Aaa"
S&P: "AAA"
(See "RATINGS" and "BOND INSURANCE" herein.)

In the opinion of Co-Bond Counsel (named below) assuming continuing compliance by the City (defined below) after the date of issuance of the 2006 Forward Refunding Bonds (defined below) with certain covenants in the ordinance described herein and subject to the matters discussed herein under "TAX MATTERS," interest on the 2006 Forward Refunding Bonds under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from gross income of the owners thereof for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or except as described herein under "TAX MATTERS," corporations. (See "TAX MATTERS" herein.)

$33,090,000
CITY OF SAN ANTONIO, TEXAS
GENERAL IMPROVEMENT FORWARD REFUNDING BONDS, SERIES 2006

Date: December 1, 2004 **Due: August 1, as shown herein**

The $33,090,000 "City of San Antonio, Texas General Improvement Forward Refunding Bonds, Series 2006" (the "2006 Forward Refunding Bonds") are being issued by the City of San Antonio, Texas (the "City") pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 1207, Texas Government Code, as amended; the Home Rule Charter of the City (the "City Charter"); and an ordinance adopted by the City Council of the City (the "City Council") on November 18, 2004 (the "Ordinance"). (See "THE 2006 FORWARD REFUNDING BONDS- Authority for Issuance" herein.) As permitted by Texas law, in the Ordinance, the City Council delegated to the Interim City Manager, or his designee, the ability to execute a pricing certificate approving the final maturity schedule, redemption provisions, and the other pricing terms with respect to the 2006 Forward Refunding Bonds. This pricing certificate was executed by the Interim City Manager on December 2, 2004.

Interest on the 2006 Forward Refunding Bonds will accrue from the Settlement Date (hereinafter defined) and will be payable on February 1 and August 1 of each year, commencing August 1, 2006, and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The 2006 Forward Refunding Bonds will be issued as fully registered obligations in book-entry-only form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository (the "Securities Depository"). Book-entry interests in the 2006 Forward Refunding Bonds will be made available for purchase in the principal amount of $5,000 or any integral multiple thereof. Purchasers of the 2006 Forward Refunding Bonds (the "Beneficial Owners") will not receive physical delivery of certificates representing their interest in the 2006 Forward Refunding Bonds. So long as the Securities Depository is the registered owner of the 2006 Forward Refunding Bonds, the principal of and interest on the 2006 Forward Refunding Bonds will be payable by JPMorgan Chase Bank, National Association, Dallas, Texas, as the initial Paying Agent/Registrar, to the Securities Depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners. (See "THE 2006 FORWARD REFUNDING BONDS –Book-Entry-Only System" herein.)

The 2006 Forward Refunding Bonds are being issued to provide funds (1) to current refund certain currently outstanding obligations as described in Schedule I hereto (the "Refunded Obligations") and (2) to pay the costs of issuance of the 2006 Forward Refunding Bonds. (See "PURPOSE AND PLAN OF FINANCING" herein.)

The 2006 Forward Refunding Bonds are payable from ad valorem taxes levied annually against all taxable property located within the City, within legal limitations, including the constitutional tax limit of $2.50 per $100 of assessed valuation. (See "THE 2006 FORWARD REFUNDING BONDS - Security" herein.)

FGIC Financial Guaranty Insurance Company

The scheduled payment of principal of and interest on the 2006 Forward Refunding Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the 2006 Forward Refunding Bonds by **Financial Guaranty Insurance Company. (See "BOND INSURANCE" herein.)**

SEE INSIDE COVER PAGE FOR STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS, AND CUSIP NUMBERS

The 2006 Forward Refunding Bonds are offered for delivery, when, as and if issued and received by the initial purchasers (the "Underwriters"), and subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Fulbright & Jaworski L.L.P., San Antonio, Texas and Escamilla & Poneck, Inc., San Antonio, Texas, as Co-Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, and for the City by the City Attorney. (See "LEGAL MATTERS" herein.) It is expected that the 2006 Forward Refunding Bonds will be available for initial delivery on the Settlement Date through the services of DTC on or about May 9, 2006.

FIRST SOUTHWEST COMPANY **RAMIREZ & CO., INC.**
M. E. Allison & Co., Inc. **Southwest Securities** **Southwestern Capital Markets, Inc.**

STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL YIELDS, AND CUSIP NUMBERS
(Due August 1)

$33,090,000 GENERAL IMPROVEMENT FORWARD REFUNDING BONDS, SERIES 2006

Stated Maturity	Principal Amount	Interest Rate	Yield	CUSIP No. [1]
2009	$ 2,400,000	5.25%	3.70%	796237DT9
2010	2,550,000	5.25%	3.83%	796237DU6
2011	5,320,000	5.25%	3.98%	796237DV4
2012	6,065,000	5.25%	4.09%	796237DW2
2013	6,420,000	5.25%	4.18%	796237DX0
2014	6,835,000	5.50%	4.27%	796237DY8
2015	1,700,000	5.50%	4.38%	796237DZ5
2016	1,800,000	5.50%	4.44%	796237EA9

The 2006 Forward Refunding Bonds are not subject to redemption prior to stated maturity.

[1] CUSIP numbers have been assigned to the 2006 Forward Refunding Bonds by Standard & Poor's CUSIP Service Bureau, a Division of The McGraw-Hill Companies, Inc., and are included solely for the convenience of the owners of the 2006 Forward Refunding Bonds. Neither the City, the Underwriters, nor the Co-Financial Advisors shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

CITY OF SAN ANTONIO, TEXAS
ADMINISTRATION

CITY COUNCIL:

Name	Years on City Council	Term Expires	Occupation
Phil Hardberger, Mayor	11 Months	May 31, 2007	Retired, Appellate Court Judge
Roger O. Flores, District 1	2 Years, 11 Months	May 31, 2007	Restaurant Owner
Sheila D. McNeil, District 2	11 Months	May 31, 2007	Self-Employed
Roland Gutierrez, District 3	11 Months	May 31, 2007	Attorney
Richard Perez, District 4	2 Years, 11 Months	May 31, 2007	Self-Employed
Patti Radle, District 5	2 Years, 11 Months	May 31, 2007	Agency Director and Teacher
Delicia Herrera, District 6	11 Months	May 31, 2007	Self-Employed
Elena Guajardo, District 7	11 Months	May 31, 2007	Retired
Art A. Hall, District 8	2 Years, 11 Months	May 31, 2007	Attorney, Investment Banker
Kevin Wolff, District 9	11 Months	May 31, 2007	Executive Vice President & C.O.O.
Christopher "Chip" Haass, District 10	2 Years, 11 Months	May 31, 2007	Educator

CITY OFFICIALS:

Name	Position	Years with City of San Antonio	Years in Current Position
Sheryl Sculley	City Manager[1]	6 Months	6 Months
Jelynne Leblanc Burley	Deputy City Manager	22 Years, 1 Month	3 Months
Pat DiGiovanni	Deputy City Manager	2 Months	2 Months
Michael Armstrong	Assistant City Manager/Chief Information Officer	10 Months	10 Months
Frances Gonzalez	Assistant City Manager	21 Years, 7 Months	2 Years, 6 Months
Erik Walsh	Assistant City Manager	11 Years, 11 Months	3 Months
Roland Lozano	Assistant to the City Manager	25 Years, 10 Months	5 Years, 1 Month
Michael Bernard	City Attorney	7 Months	7 Months
Leticia Vacek	City Clerk	1 Year, 11 Months	1 Year, 11 Months
Thomas Wendorf	Director of Public Works	7 Years, 1 Months	5 Years, 4 Months
Ben Gorzell, Jr.	Acting Director of Finance	15 Years, 6 Months	4 Months
Peter Zanoni	Director of Management and Budget	9 Years, 1 Month	2 Years, 4 Months

[1] Ms. Sculley was appointed as the City Manager on November 7, 2005, replacing Mr. Rolando Bono, who had previously served as the Interim City Manager and as the City Manager.

CONSULTANTS AND ADVISORS:

Co-Bond Counsel	Fulbright & Jaworski L.L.P., San Antonio, Texas and Escamilla & Poneck, Inc., San Antonio, Texas
Co-Certified Public Accountants	KPMG L.L.P., San Antonio, Texas, Leal & Carter, P.C., San Antonio, Texas, and Robert J. Williams, CPA, San Antonio, Texas
Co-Financial Advisors	Coastal Securities, San Antonio, Texas and Estrada Hinojosa & Company, Inc., San Antonio, Texas

USE OF INFORMATION IN THE UPDATED OFFICIAL STATEMENT

Under no circumstances shall this Updated Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

No dealer, broker, salesman, or other person has been authorized by the City to give any information or to make any representation with respect to the 2006 Forward Refunding Bonds, other than as contained in this Updated Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by either of the foregoing. The information set forth herein has been obtained from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness by the Co-Financial Advisors or the Underwriters and is not to be construed as a promise or guarantee of the Co-Financial Advisors or the Underwriters. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Updated Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the information or opinions set forth hereinafter the date of this Updated Official Statement.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE THE MARKET PRICE OF THE ISSUE AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The agreements of the City and others related to the 2006 Forward Refunding Bonds are contained solely in the contracts described herein. Neither this Updated Official Statement nor any other statement made in connection with the offer or sale of the 2006 Forward Refunding Bonds is to be construed as constituting an agreement with the purchasers of the 2006 Forward Refunding Bonds. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

THE UNDERWRITERS HAVE PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS UPDATED OFFICIAL STATEMENT. THE UNDERWRITERS HAVE REVIEWED THE INFORMATION IN THIS UPDATED OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, THEIR RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITERS DO NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

THE 2006 FORWARD REFUNDING BONDS ARE EXEMPT FROM REGISTRATION WITH THE SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE 2006 FORWARD REFUNDING BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THESE SECURITIES HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

All information contained in this Updated Official Statement is subject, in all respects, to the complete body of information contained in the original sources thereof and no guaranty, warranty, or other representation is made concerning the accuracy or completeness of the information herein. In particular, no opinion or representation is rendered as to whether any projection will approximate actual results, and all opinions, estimates and assumptions, whether or not expressly identified as such, should not be considered statements of fact.

Neither the City, the Underwriters, nor the Co-Financial Advisors make any representation or warranty with respect to the information contained in this Updated Official Statement regarding DTC or its Book-Entry-Only System.

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TABLE OF CONTENTS

The cover page, subsequent pages hereof, and appendices attached hereto, are part of this Updated Official Statement.

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UPDATED OFFICIAL STATEMENT
Relating to the
$33,090,000
CITY OF SAN ANTONIO, TEXAS
GENERAL IMPROVEMENT FORWARD REFUNDING BONDS, SERIES 2006

INTRODUCTION

This Updated Official Statement of the City of San Antonio, Texas (the "City") is provided to furnish information in connection with the sale of the "City of San Antonio, Texas General Improvement Forward Refunding Bonds, Series 2006," in the principal amount of $33,090,000 (the "2006 Forward Refunding Bonds"). The principal amount of the 2006 Forward Refunding Bonds represents bonds issued that will be sufficient to discharge and refund certain outstanding tax-supported debt of the City hereinafter described in Schedule I (the "Refunded Obligations").

There follows in this Updated Official Statement descriptions of the 2006 Forward Refunding Bonds, the Ordinance (defined herein), and certain other information about the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City at the Office of the Director of Finance, City Hall Annex, 506 Dolorosa, San Antonio, Texas 78204; or from the City's Co-Financial Advisors, Coastal Securities, 600 Navarro, Suite 350, San Antonio, Texas 78205, and Estrada Hinojosa & Company, Inc., 100 West Houston Street, Suite 1400, San Antonio, Texas 78205, by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

This Updated Official Statement speaks only as to its date. The information contained herein is subject to change. Copies of this Updated Official Statement (hereinafter defined) will be filed with the Municipal Securities Rulemaking Board, 1900 Duke Street, Suite 600, Alexandria, Virginia 22314. (See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.)

PURPOSE AND PLAN OF FINANCING

Purpose of the 2006 Forward Refunding Bonds

The 2006 Forward Refunding Bonds are being issued to provide funds: (1) to refund the Refunded Obligations and (2) to pay the costs of issuance of the 2006 Forward Refunding Bonds.

Sources and Uses of the 2006 Forward Refunding Bonds

The net proceeds of $35,134,069.47 from the sale of the 2006 Forward Refunding Bonds, which includes an original issue premium of $2,250,955.35, will be applied, together with a cash contribution by the City on May 9, 2006 (the "Settlement Date") to fund the Escrow Fund (as hereinafter defined) for the redemption, discharge, and defeasance of the Refunded Obligations, and to pay certain costs of issuance.

The City will invest the Escrow Fund in certain Federal Securities (as hereinafter defined) that will result in the City receiving $376,168.67 in investment income. The City will transfer this amount from the Escrow Fund to the Bond Fund on August 2, 2006.

The following table summarizes the application of the proceeds resulting from the sale of the 2006 Forward Refunding Bonds, and the sources and uses of funds.

Sources of Funds	
Principal Amount of the 2006 Forward Refunding Bonds	$33,090,000.00
Net Original Issue Premium	2,250,955.35
Interest & Sinking Funds on Hand	400,000.00
Total Sources of Funds	$35,740,955.35
Uses of Funds	
Escrow Fund Deposit	$35,303,293.75
Costs of Issuance and Insurance Premium	230,775.72
Underwriters' Discount	206,885.88
Total Uses of Funds	$35,740,955.35

Refunded Obligations

The Refunded Obligations, and interest due thereon, are to be paid from funds deposited with JPMorgan Chase Bank, National Association, Dallas, Texas (the "Escrow Agent") or its successor in the total amount of principal plus redemption premium, if any, and plus accrued interest to August 1, 2006, which is the redemption date for the Refunded Obligations. The Ordinance approves and authorizes the execution of an escrow agreement (the "Escrow Agreement") between the City and the Escrow Agent. The Ordinance further provides that concurrently with the initial delivery of the 2006 Forward Refunding Bonds on the Settlement Date, from a portion of the proceeds of the sale of the 2006 Forward Refunding Bonds and other lawfully available funds of the City, the City will deposit with the Escrow Agent the amount sufficient to accomplish the discharge and final payment of the Refunded Obligations. Such amount will be held by the Escrow Agent in an escrow account (the "Escrow Fund") and be used to effectuate a gross cash defeasance of the Refunded Obligations.

Simultaneously with the initial delivery of the 2006 Forward Refunding Bonds on the Settlement Date, the City will give irrevocable instructions to mail a notice to the owners of the Refunded Obligations that the Refunded Obligations will be redeemed prior to stated maturity on the first optional redemption date, on which date money will be made available to redeem the Refunded Obligations from money held under the Escrow Agreement.

Grant Thornton LLP, Minneapolis, Minnesota, certified public accountants, will verify at the time of delivery of the 2006 Forward Refunding Bonds to the Underwriters that the cash on deposit in the Escrow Fund or the direct obligations of the United States of America (the "Federal Securities") purchased with certain proceeds of the 2006 Forward Refunding Bonds will mature and pay interest, without reinvestment, at such times and in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Obligations. Such maturing principal of and interest on the Federal Securities will not be available to pay the debt service requirements on the 2006 Forward Refunding Bonds.

By the deposit of the cash and Federal Securities, if any, with the Escrow Agent pursuant to the Ordinance and the Escrow Agreement, Co-Bond Counsel is of the opinion that the City will have entered into firm banking and financial arrangements for the final payment and discharge of the Refunded Obligations pursuant to the terms of the ordinance authorizing the issuance of the Refunded Obligations and in accordance with Texas law, and that the Refunded Obligations will be deemed to be no longer outstanding except for the purpose of being paid from the funds held in such Escrow Fund.

The City has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund, from lawfully available funds, of any additional amounts required to pay the principal of, premium, if any, and interest on the Refunded Obligations if for any reason the cash balance on deposit or scheduled to be on deposit in the Escrow Fund should be insufficient to make such payment.

THE 2006 FORWARD REFUNDING BONDS

General Description

Interest on the 2006 Forward Refunding Bonds accrues from the Settlement Date, May 9, 2006, and is payable semiannually on February 1 and August 1 of each year, commencing August 1, 2006. The principal of and interest on the 2006 Forward Refunding Bonds are payable in the manner described herein under "Book-Entry-Only System." In the event the Book-Entry-Only System is discontinued, the interest on the 2006 Forward Refunding Bonds will be payable to the registered owner as shown on the security register maintained by JPMorgan Chase Bank, National Association, Dallas, Texas, as the initial Paying Agent/Registrar, as of the fifteenth (15^{th}) day of the month next preceding such interest payment date by check, mailed first-class, postage prepaid, to the address of such person on the security register, or by such other method acceptable to the Paying Agent/Registrar requested by and at the risk and expense of the registered owner. In the event the Book-Entry-Only System is discontinued, the principal of the 2006 Forward Refunding Bonds will be payable at stated maturity or prior redemption upon presentation and surrender thereof at the designated payment office of the Paying Agent/Registrar.

If the date for the payment of the principal of or interest on the 2006 Forward Refunding Bonds is a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the Paying Agent/Registrar is located are authorized to close or the United States Post Office is not open for business, then the date for such payment will be the next succeeding day which is not such a day, and payment on such date will have the same force and effect as if made on the date payment was due.

Authority for Issuance

The 2006 Forward Refunding Bonds are issued pursuant to the Home Rule Charter of the City (the "City Charter"); the general laws of the State of Texas (the "State"), particularly Chapter 1207, Texas Government Code, as amended; and the ordinance adopted by the City Council of the City (the "City Council") on November 18, 2004 authorizing the issuance of the 2006 Forward Refunding Bonds (the "Ordinance"). The proceeds of the 2006 Forward Refunding Bonds will be utilized to redeem, discharge, and defease the Refunded Obligations and pay certain costs of issuance for the 2006 Forward Refunding Bonds. As permitted by Texas law, in the Ordinance, the City Council delegated to the Interim City Manager, or his designee, the ability to execute a pricing certificate approving the final maturity schedule, redemption provisions, and the other pricing terms with respect to the 2006 Forward Refunding Bonds. This pricing certificate was executed by the Interim City Manager on December 2, 2004.

Security

Ad Valorem Tax Pledge

In the Ordinance, the City covenants that it will levy and collect an annual ad valorem tax within the limitations prescribed by law against all taxable property located within the City sufficient to meet the debt service requirements on the 2006 Forward Refunding Bonds. The City had outstanding, as of March 31, 2006, $872,090,124 in principal amount of tax-supported obligations prior to the issuance of the 2006 Forward Refunding Bonds. After effectuating delivery of the 2006 Forward Refunding Bonds on or about May 9, 2006, the City's outstanding principal amount of indebtedness payable from ad valorem taxes will be $870,780,124, assuming no other ad valorem tax-supported obligations are issued by the City prior to such date.

Tax Rate Limitations

The State Constitution and the City Charter provide that the ad valorem taxes levied by the City for general purposes and for the purpose of paying the principal of and interest on the City's indebtedness must not exceed $2.50 for each $100 of assessed valuation of taxable property. There is no constitutional or statutory limitation within the $2.50 rate for interest and sinking fund purposes; however, the Texas Attorney General, who must approve the issuance of the 2006 Forward Refunding Bonds, has adopted an administrative policy that prohibits the issuance of debt by a municipality, such as the City, if its issuance produces debt service requirements exceeding that which can be paid from $1.50 of the foregoing $2.50 maximum tax rate calculated at 90% collections. In addition, the City has a City Charter provision that limits the amount of debt payable from the ad valorem tax proceeds. This City Charter provision prohibits the total debt of the City from exceeding 10% of the total assessed valuation of property shown by the last assessment roll, exclusive of any indebtedness secured in whole or in part by special assessments, exclusive of the debt of any improvement district, and exclusive of any indebtedness secured by revenues, other than taxes of the City or of any department or agency thereof. The issuance of the 2006 Forward Refunding Bonds does not result in the City's violation of these provisions.

Redemption Provisions

No Redemption

The 2006 Forward Refunding Bonds are not subject to redemption prior to stated maturity.

Paying Agent/Registrar

The initial Paying Agent/Registrar is JPMorgan Chase Bank, National Association, Dallas, Texas. In the Ordinance, the City covenants to provide a competent and legally qualified bank, trust company, financial institution, or other entity to act as and perform the services of Paying Agent/Registrar at all times until the 2006 Forward Refunding Bonds are duly paid. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the City, the new Paying Agent/Registrar must accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar, selected at the sole discretion of the City, must be a bank, trust company, financial institution, or other entity duly qualified and legally authorized to serve as a Paying Agent/Registrar for the 2006 Forward Refunding Bonds. Upon a change in the Paying Agent/Registrar for the 2006 Forward Refunding Bonds, the City will promptly cause written notice thereof to be sent to each registered owner of the 2006 Forward Refunding Bonds by United States mail, first-class, postage prepaid.

Transfer, Exchange and Registration

In the event the 2006 Forward Refunding Bonds are not in the Book-Entry-Only System, the 2006 Forward Refunding Bonds may be registered, transferred, assigned, and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar, and such registration, transfer, and exchange will be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, transfer, and exchange. A 2006 Forward Refunding Bond may be assigned by the execution of an assignment form on the 2006 Forward Refunding Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new 2006 Forward Refunding Bond will be delivered by the Paying Agent/Registrar in lieu of the 2006 Forward Refunding Bonds being transferred or exchanged at the designated payment office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the registered owner's request, risk, and expense. New 2006 Forward Refunding Bonds issued in an exchange or transfer of 2006 Forward Refunding Bonds will be delivered to the registered owner or assignee of the registered owner, to the extent possible, within three business days after the receipt of the 2006 Forward Refunding Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New 2006 Forward Refunding Bonds registered and delivered in an exchange or transfer will be in denominations of $5,000 for any one stated maturity or any integral multiple thereof and for a like aggregate principal amount, series, and rate of interest as the 2006 Forward Refunding Bonds surrendered for exchange or transfer. (See "THE 2006 FORWARD REFUNDING BONDS - Book-Entry-Only System" herein for a description of the system to be utilized in regard to ownership and transferability of the 2006 Forward Refunding Bonds.)

Mutilated, Destroyed, Lost or Stolen 2006 Forward Refunding Bonds

The City has agreed to replace damaged, mutilated, destroyed, lost, or stolen 2006 Forward Refunding Bonds upon surrender of the damaged or mutilated 2006 Forward Refunding Bonds to the Paying Agent/Registrar or receipt of satisfactory evidence of such destruction, loss, or theft, and receipt by the City and the Paying Agent/Registrar of security or indemnity as may be required by either of them to hold them harmless. The City may require payment of taxes, governmental charges, and other expenses in connection with any such replacement.

Limitation on Transfer

Neither the City nor the Paying Agent/Registrar will be required to transfer or exchange any 2006 Forward Refunding Bonds during the period commencing at the close of business on the Record Date (as hereinafter defined) and ending at the opening of business on the next interest payment date.

Defaults and Remedies

The Ordinance does not establish specific events of default or remedies with respect to the 2006 Forward Refunding Bonds. If the City defaults in the payment of the principal and interest on any 2006 Forward Refunding Bond when due, or defaults in the observance or performance of any covenants, conditions, or obligations set forth in the Ordinance any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, conditions, or obligations. Such right is in addition to any other rights the registered owners of 2006 Forward Refunding Bonds may be provided by the laws of the State. Under State law, there is no right to the acceleration of maturity of the 2006 Forward Refunding Bonds upon the failure of the City to observe any covenant under the Ordinance. Although a registered owner of 2006 Forward Refunding Bonds could presumably obtain a judgment against the City if a default occurred in payment of principal of or interest on any such 2006 Forward Refunding Bonds, such judgment could not be satisfied by execution against any property of the City. Such registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the City to levy, assess, and collect an annual ad valorem tax sufficient to pay principal of and interest on the 2006 Forward Refunding Bonds as it becomes due. The enforcement of any such remedy may be difficult and time-consuming and a registered owner could be required to enforce such remedy on a periodic basis. In addition, recent Texas lower court decisions have questioned whether statutory language authorizing political subdivisions to "sue and be sued" or "plead and implead" is sufficient to waive a political subdivision's sovereign immunity to suit. While these decisions could affect the ability of a registered owner to seek specific performance of a covenant made by the City in the Ordinance or other bond document, or to seek recovery of damages from the City, the remedy of mandamus has not been at issue in these cases. These lower court decisions are currently under review by the Texas Supreme Court. The Ordinance does not provide for the appointment of a trustee to represent the interest of the holders of the 2006 Forward Refunding Bonds upon any failure of the City to perform in accordance with the terms of such Ordinance, or upon any other condition. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation debt of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce remedies would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court), and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Co-Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the 2006 Forward Refunding Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

Record Date for Interest Payment

The record date for determining the person to whom the interest is payable on any interest payment date (the "Record Date") is the fifteenth (15th) day of the month next preceding such interest payment date, as specified in the Ordinance. In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new Record Date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which must be 15 days after the Special Record Date) will be sent at least five business days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each registered owner of a 2006 Forward Refunding Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the day next preceding the date of mailing of such notice.

Amendments

The City may amend, change, or modify the Ordinance without the consent of or notice to any registered owners, as may be required (1) by the provisions of the Ordinance; (2) for the purpose of curing any ambiguity, inconsistency, or formal defect or omission therein; or (3) in connection with any other change which is not to the prejudice of the registered owners. In addition, the City may, with the written consent of the holders of a majority in aggregate principal amount of the 2006 Forward Refunding Bonds then outstanding and affected thereby, amend, change, modify, or rescind any of the provisions of the Ordinance; except that, without the consent of the registered owners of all of the 2006 Forward Refunding Bonds affected, no such amendment, change, modification, or rescission may (1) change the date specified as the date on which the principal of or any installment of interest on any 2006 Forward Refunding Bonds is due and payable, reduce the principal amount thereof or the rate of interest thereon, or in any other way modify the terms of payment of the principal of, or interest on the 2006 Forward Refunding Bonds; (2) give any preference to any 2006 Forward Refunding Bonds over any other 2006 Forward Refunding Bonds; (3) extend any waiver of default to subsequent defaults; or (4) reduce the respective aggregate principal amount of 2006 Forward Refunding Bonds required for consent to any amendment, change, modification, or rescission.

Defeasance

The Ordinance provides for the defeasance of the 2006 Forward Refunding Bonds when the payment of the principal of the 2006 Forward Refunding Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity or otherwise) is provided by irrevocably depositing with a paying agent, in trust (1) money sufficient to make such payment; and/or (2) Government Securities, certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation, and expenses of the paying agent for the 2006 Forward Refunding Bonds. The Ordinance provides that "Government Securities" means (i) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; and (ii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent. The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Securities for the Government Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance.

Payment Record

The City has never defaulted in payments on its bonded indebtedness.

Book-Entry-Only System

This section describes how ownership of the 2006 Forward Refunding Bonds is to be transferred and how the principal of, premium, if any, and interest on the 2006 Forward Refunding Bonds are to be paid to and credited by The Depository Trust Company, New York, New York ("DTC"), while the 2006 Forward Refunding Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Updated Official Statement. The City believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

The City cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the 2006 Forward Refunding Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the 2006 Forward Refunding Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Updated Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the 2006 Forward Refunding Bonds. The 2006 Forward Refunding Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for the 2006 Forward Refunding Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: "AAA." The DTC Rules applicable to its participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the 2006 Forward Refunding Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2006 Forward Refunding Bonds on DTC's records. The ownership interest of each actual purchaser of the 2006 Forward Refunding Bonds ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interest in the 2006 Forward Refunding Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2006 Forward Refunding Bonds, except in the event that use of the book-entry system for the 2006 Forward Refunding Bonds is discontinued.

To facilitate subsequent transfers, all 2006 Forward Refunding Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the 2006 Forward Refunding Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2006 Forward Refunding Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2006 Forward Refunding Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2006 Forward Refunding Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2006 Forward Refunding Bond documents. For example, Beneficial Owners of the 2006 Forward Refunding Bonds may wish to ascertain that the nominee holding the 2006 Forward Refunding Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2006 Forward Refunding Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2006 Forward Refunding Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 2006 Forward Refunding Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from City or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Paying Agent/Registrar or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2006 Forward Refunding Bonds at any time by giving reasonable notice to the City. Under such circumstances, in the event that a successor depository is not obtained, Bonds are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

So long as Cede & Co. is the registered owner of the 2006 Forward Refunding Bonds, the City will have no obligation or responsibility to the DTC Participants or Indirect Participants, or the persons for which they act as nominees, with respect to payment to or providing of notice to such Participants, or the persons for which they act as nominees.

Use of Certain Terms in other Sections of this Updated Official Statement

In reading this Updated Official Statement it should be understood that while the 2006 Forward Refunding Bonds are in the Book-Entry-Only System, references in other sections of this Updated Official Statement to registered owners should be read to include the person for which the Direct Participant or Indirect Participant acquires an interest in the 2006 Forward Refunding Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

The following Tables 1A – 6 contain information on assessed valuation, debt payable from ad valorem taxes, estimated debt payable from ad valorem taxes, tax adequacy, indicated interest and sinking fund, ad valorem tax debt principal repayment schedule, and debt obligations – capital leases payable.

DEBT STATEMENT:
ASSESSED VALUATION, OUTSTANDING DEBT PAYABLE FROM AD VALOREM TAXES AND DEBT RATIOS

Assessed Valuation[1] **Table 1A**

Tax Year 2005 Actual Market Value of Taxable Property		$56,833,270,731
Less:		
Optional 65 Years of Age & Older Homestead Exemptions	$3,773,286,270	
Disabled and Deceased Veterans' Exemptions	173,753,074	
Disabled Residence Homestead Exemptions	105,675,153	
Freeport Exemption	331,699,380	
Article 8, Sec. 1-d-1 Special Appraisals	264,886,902	
Tax Phase-In Exemptions	415,214,415	
Historical Exemptions	31,052,880	
Pollution Control Exemptions	5,675,890	
Community Housing Development Organizations Exemptions	8,994,535	
Residence Homestead Appraised Value of 10% Limitations	213,045,090	
Appraised Value Limitations	1,283,584,345	
Absolute Exemptions Pro-rated	3,850,652	
Total Exemptions	$6,610,718,586	
Tax Year 2005 Net Taxable Assessed Valuation (100% of Actual Market)		$50,222,552,145

[1] See "AD VALOREM TAXATION" herein for a description of the City's taxation procedures. Based on Tax Year 2005 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of July 25, 2005.

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The Outstanding Ad Valorem Tax-Supported Debt (at 9/30/05)		
General Improvement Bonds	$	670,565,124
Combination Tax and Revenue Certificates of Obligation		194,675,000
Taxable Combination Tax and Revenue Certificates of Obligation		6,850,000
	$	872,090,124
Less:		
Outstanding Obligations to be Refunded with 2006 Forward Refunding Bonds (See Schedule I)	$	34,400,000
The 2006 Forward Refunding Bonds	$	33,090,000
Total Gross Outstanding Ad Valorem Tax Debt	$	870,780,124
Less: Self-Supporting Debt (at 9/30/05)[1]		1,030,000
Total Net Debt Payable from Ad Valorem Taxes	$	869,750,124
Interest and Sinking Fund Balance at 9/30/05*	$	62,054,196
Ratio of Gross Debt to Actual Market Value		1.54%
Ratio of Gross Debt to Net Taxable Assessed Value		1.74%
Ratio of Net Debt to Actual Market Value		1.53%
Ratio of Net Debt to Net Taxable Assessed Value		1.73%
Tax Year 2005 Actual Market Value of Taxable Property[2]		$56,833,270,731
Tax Year 2005 Net Taxable Assessed Valuation (100% of Actual Market)[2]		$50,222,552,145
Per Capita 2005 Net Taxable Assessed Valuation[3]	$	38,429
Per Capita Gross Debt [3]	$	666
Per Capita Net Debt [3]	$	666

* Unaudited.
[1] To maintain this debt as self-supporting, payments will be made from the Hotel-Motel Tax Funds.
[2] Based on Tax Year 2005 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of July 25, 2005. See "AD VALOREM TAXATION" for a description of the City's taxation procedures, including determination of net assessed valuation.
[3] The City's Planning Department estimated the City's population at 1,306,900 for the calendar year ending December 31, 2005.

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EXISTING DEBT SERVICE AND PRINCIPAL AND INTEREST REQUIREMENTS

The following table describes the existing debt service payable from ad valorem taxes, which includes self-supporting debt.

Principal and Interest Requirements **Table 2**

			The 2006 Forward Refunding Bonds			
Fiscal Year Ended 9/30	Existing Debt Service	Refunded Debt Service	Principal	Interest	Annual Debt Service	Total Debt Service Requirement
2006	$ 105,182,005.97	$ 903,294.75		$ 401,586.46	$ 401,586.46	$ 104,680,297.68
2007	107,959,923.75	1,806,587.50		1,763,062.50	1,763,062.50	107,916,398.75
2008	107,387,550.00	1,806,587.50		1,763,062.50	1,763,062.50	107,344,025.00
2009	105,296,413.75	4,601,587.50	$2,400,000	1,763,062.50	4,163,062.50	104,857,888.75
2010	104,633,545.00	4,621,837.50	2,550,000	1,637,062.50	4,187,062.50	104,198,770.00
2011	104,843,741.25	7,258,177.50	5,320,000	1,503,187.50	6,823,187.50	104,408,751.25
2012	82,334,782.50	7,295,927.50	6,065,000	1,223,887.50	7,288,887.50	82,327,742.50
2013	83,565,077.51	7,333,147.50	6,420,000	905,475.00	7,325,475.00	83,557,405.01
2014	66,866,763.66	7,407,440.00	6,835,000	568,425.00	7,403,425.00	66,862,748.66
2015	48,799,086.88	1,902,000.00	1,700,000	192,500.00	1,892,500.00	48,789,586.88
2016	44,514,293.75	1,905,750.00	1,800,000	99,000.00	1,899,000.00	44,507,543.75
2017	39,834,195.00					39,834,195.00
2018	39,828,365.00					39,828,365.00
2019	37,987,055.63					37,987,055.63
2020	34,645,046.25					34,645,046.25
2021	29,667,001.25					29,667,001.25
2022	27,352,768.75					27,352,768.75
2023	15,657,531.25					15,657,531.25
2024	8,349,737.50					8,349,737.50
2025	4,120,393.75					4,120,393.75
	$1,198,825,278.40	$46,842,337.25	$33,090,000	$11,820,311.46	$44,910,311.46	$1,196,893,252.61

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Tax Adequacy — Table 3

2005 Net Taxable Assessed Valuation[1]	$50,222,552,145
Maximum Annual Debt Service Requirements, Fiscal Year Ended 2007	$ 107,916,399
Indicated Interest and Sinking Fund Tax Rate	$ 0.2204
Indicated Interest and Sinking Fund Tax Levy at 97.5% Collections	$ 107,923,242

[1] Based on tax year 2005 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of July 25, 2005.

Note: See "TAX DATA" herein.

Interest and Sinking Fund Management Index — Table 4

Interest and Sinking Fund Balance, Fiscal Year Ended 2005*	$ 62,054,196
2006 Actual Interest and Sinking Fund Rate	$ 0.2115
2006 Interest and Sinking Fund Tax Levy at 97.5% Collections Produces[1]	$ 103,565,180
Total Available for Debt Service	$ 165,619,376
Less: Ad Valorem Debt Service Requirements, Fiscal Year Ended 2006	$ 104,680,298
Estimated Surplus at Fiscal Year Ended 2006	$ 60,939,078

* Unaudited.

[1] Does not include revenues derived from self-supporting debt operations, delinquent tax collections, penalties and interest on delinquent tax collections, or investment earnings.

Ad Valorem Tax Debt Principal Repayment Schedule — Table 5

Fiscal Year Ended 9/30	Currently Outstanding Obligations	Obligations Remaining Outstanding End of Year	Percent (%) of Principal Retired	Cumulative Percent (%) of Principal Retired
2006	$58,080,124	$812,700,000	6.67%	6.67%
2007	68,060,000	744,640,000	7.82%	14.49%
2008	70,870,000	673,770,000	8.14%	22.62%
2009	72,165,000	601,605,000	8.29%	30.91%
2010	74,690,000	526,915,000	8.58%	39.49%
2011	78,580,000	448,335,000	9.02%	48.51%
2012	60,440,000	387,895,000	6.94%	55.45%
2013	64,905,000	322,990,000	7.45%	62.91%
2014	51,400,000	271,590,000	5.90%	68.81%
2015	35,840,000	235,750,000	4.12%	72.93%
2016	33,335,000	202,415,000	3.83%	76.75%
2017	30,350,000	172,065,000	3.49%	80.24%
2018	31,945,000	140,120,000	3.67%	83.91%
2019	31,735,000	108,385,000	3.64%	87.55%
2020	29,955,000	78,430,000	3.44%	90.99%
2021	26,405,000	52,025,000	3.03%	94.03%
2022	25,385,000	26,640,000	2.92%	96.94%
2023	14,685,000	11,955,000	1.69%	98.63%
2024	7,940,000	4,015,000	0.91%	99.54%
2025	4,015,000	0	0.46%	100.00%
	$870,780,124			

The City has entered into various lease purchase agreements for the acquisition of computers, copiers, fire trucks, golf operations equipment, public works equipment, a high capacity trailer, a library automation system, self-contained breathing apparatus, a hazardous materials ("HAZMAT") vehicle and a mainframe computer. Shown below is the gross value of the assets at September 30, 2005. Payments on each of the lease purchases will be made from budgeted annual appropriations to be approved by the City Council. The following is a schedule of the projected remaining future minimum lease payments under these capital leases together with the net minimum lease payments as of September 30, 2005.

Description	Lease Termination Date	Minimum Lease Payment	Amount Representing Interest	Total Minimum Lease Payments
Fire Trucks, Aerial	11/1/2005	$ 83,397	$ 1,093	$ 84,490
Fire Protective Equipment	11/1/2005	76,060	996	77,056
Golf Course Equipment	11/1/2005	24,466	320	24,786
Document Publishing System	4/1/2007	120,572	5,024	125,596
Fire Truck, Ladder	5/1/2007	243,294	9,110	252,404
Fire Truck, Platform	5/1/2007	249,044	9,325	258,369
Golf Turf Equipment	5/1/2007	77,139	2,888	80,027
Public Works Equipment	5/1/2007	213,421	7,991	221,412
Trailer, High Capacity	5/1/2007	263,143	9,853	272,996
Color Copier	12/1/2007	68,357	8,149	76,506
Library Automation System	5/1/2008	427,037	17,554	444,591
Stormwater Tractor Trailers	5/1/2008	228,280	9,384	237,664
Street Maintenance Equipment	5/1/2008	1,874,854	77,070	1,951,924
Heidelberg Printer	11/1/2008	233,862	14,150	248,012
Garbage Containers	5/1/2009	241,659	13,105	254,764
Self-Contained Breathing Apparatus	5/1/2010	1,096,273	87,215	1,183,488
Mainframe Computer System & Software	5/1/2010	1,389,207	110,520	1,499,727
Total		$ 6,910,065	$ 383,747	$7,293,812

The period April 1, 2005 through April 11, 2006 included appropriations for lease purchase of one platform truck, one pumper truck, 10 aerial trucks, and thirteen 12-lead electrocardiograms (EKG's) for the City's Fire Department, which occurred in July 2005, December 2005, January 2006, and April 2006 in the total principal amount of $6,847,318.

The adopted budget for fiscal year 2006 includes appropriations for lease purchase arrangements to acquire automated garbage trucks and garbage carts for the City's Environmental Services Department, an inventory theft detection system for the City's Library Department, and pumper trucks for the City's Fire Department. The funding for these lease purchase arrangements is anticipated to occur by fiscal year end 2006.

On May 15, 2001, the City became obligated to pay $14,465,000 in lease revenue bonds issued through the City of San Antonio, Texas Municipal Facilities Corporation (the "Corporation") to provide funds for the construction of the "One Stop Development Services Center," a municipal office facility. The City and the Corporation entered into a lease whereby the Corporation agreed to cause such facility to be built and leased by the City, and the City agreed to annually appropriate funds to pay lease payments sufficient to pay principal and interest on the Bonds when due. The lease commenced on May 15, 2001 and the City has budgeted $1.189 million for lease payments during fiscal year 2006.

The table below shows the debt service schedule for the aforementioned bonds. In addition to the debt service on these bonds, the lease payments include other expenses related to the operation and maintenance of the facility.

Fiscal Year Ended 09/30	Principal	Interest	Annual Debt Service
2006	$ 600,000	$ 588,520.00	$1,188,520.00
2007	610,000	564,820.00	1,174,820.00
2008	640,000	539,810.00	1,179,810.00
2009	670,000	512,930.00	1,182,930.00
2010	695,000	483,785.00	1,178,785.00
2011	725,000	452,857.50	1,177,857.50
2012	760,000	420,232.50	1,180,232.50
2013	800,000	384,892.50	1,184,892.50
2014	835,000	346,492.50	1,181,492.50
2015	875,000	305,577.50	1,180,577.50
2016	920,000	261,827.50	1,181,827.50
2017	965,000	215,367.50	1,180,367.50
2018	1,015,000	166,152.50	1,181,152.50
2019	1,065,000	113,880.00	1,178,880.00
2020	1,125,000	58,500.00	1,183,500.00
	$12,300,000	$5,415,645.00	$17,715,645.00

AD VALOREM TAXATION

Authority to Levy Ad Valorem Taxes; Tax Rate Limitations

The City is authorized to levy an annual ad valorem tax, within the limits prescribed by law, on all taxable property within the City in an amount sufficient to pay the principal of and interest on debt payable therefrom. The City is also authorized to levy an annual ad valorem tax for operations and maintenance purposes. The maximum rate that may be levied by the City for all City purposes is $2.50 per $100 assessed valuation as provided in Article XI, Section 5 of the Texas Constitution and as provided in the City Charter, which adopts this constitutional limitation. No direct funded debt limitation is imposed on the City under current Texas law; however, the Texas Attorney General has adopted an administrative policy that prohibits the issuance of general obligation debt by a municipality, such as the City, if the issuance produces debt service requirements exceeding that which can be paid from $1.50 of the foregoing $2.50 maximum tax rate calculated at 90% of collections. In addition, the City Charter provides that the total bonded debt of the City must never exceed 10% of the total assessed valuation of property shown by the last assessment roll, exclusive of (1) any indebtedness secured in whole or in part by special assessments; (2) the bonded debt of any improvement district; and (3) any indebtedness secured by revenues, other than taxes of the City or of any department or agency thereof. The issuance of the 2006 Forward Refunding Bonds does not violate these limitations. (See "DEBT AND TAX RATE LIMITATIONS" herein.)

Texas Property Tax Code and County-Wide Appraisal District

The Texas Property Tax Code, located at Title 1, Texas Tax Code, as amended (the "Property Tax Code"), specifies the taxing procedures of all political subdivisions of the State, including the City. The provisions of the Property Tax Code are complex and are not fully summarized here.

The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district with the responsibility for recording and appraising property for all taxing units within a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. The Bexar Appraisal District (the "Appraisal District") has the responsibility for appraising property for all taxing units within Bexar County. Two and one half (2½) acres of the City's taxable property lie in Comal County. The Comal Appraisal District has the responsibility for appraising property for all taxing units within Comal County. Such appraisal values are subject to review and change by the Bexar Appraisal Review Board and the Comal Appraisal Review Board.

Once an appraisal roll is prepared and approved by the Bexar Appraisal Review Board, it is used by the City in calculating its tax rates and preparing a tax roll. Assessments under the Property Tax Code are based on 100% of appraised value. The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraised values. The plan shall provide for reappraisal of all real property at least once every three years.

The City, by resolution adopted by its governing body, may require the Appraisal District to appraise all property within the City or to identify and appraise newly annexed territory and new improvements in the City as of a date specified in the resolution. The City must pay the Appraisal District for the cost of making such an appraisal. While such a current estimate of appraised value may serve to indicate the growth of taxable values within the City, it may not be used by the City as the basis for the imposition of property taxes.

Under certain circumstances, taxpayers and taxing units (such as the City) may appeal the orders of the Bexar Appraisal Review Board by filing a timely petition for review in State district court. In such event, the value of the property in question will be determined by the court or by a jury if requested by any party. Additionally, taxing units may bring suit against the Appraisal District to compel compliance with the Property Tax Code.

Property Subject to Taxation by the City

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes, and certain categories of intangible property with a tax status in the City is subject to taxation by the City. Principal categories of exempt property include, but are not limited to, property owned by the State or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; implements of husbandry that are used in the production of ranch and farm products; family supplies for home or farm use; certain goods, wares and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, certain community housing development organizations' property, and qualified schools; designated historical sites; and tangible personal property not held for the production of income (unless the City elects to tax such tangible personal property).

Residential Homestead Exemptions

The Property Tax Code authorizes the governing body of each political subdivision in the State, at its option, to exempt up to 20% of the appraised value of residential homesteads from ad valorem taxation. The City may be required to offer such an exemption if a majority of voters approve it at an election. The City would be required to call such an election upon petition by 20% of the number of qualified voters who voted in the preceding election. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of this additional residence homestead exemption may be considered each year, but must be adopted by July 1. Additionally, the City may grant an exemption to an individual who is disabled or is 65 years of age or older in a fixed amount of no less than $3,000 of assessed value. The City currently grants a $65,000 residential homestead exemption to only persons 65 years of age or older effective immediately upon their 65th birthday. Effective for fiscal year 2006 (tax year 2005), the City will grant a disabled residential homestead exemption in the amount of $12,500.

Disabled/Deceased Veterans' Exemptions

The Property Tax Code mandates that a disabled veteran or certain surviving dependents are entitled to an exemption from taxation of a portion of the assessed value of a property they own. The amount of this exemption ranges from $5,000 to $12,000 and the exemption amount is based on the disability rating of the veteran as certified by the Veterans' Administration.

Historical Property Exemptions

The City has granted an exemption to historically significant sites in need of tax relief to encourage preservation. Commercial buildings that meet definitions of historical sites and that have been substantially rehabilitated or restored will be exempt from taxation by the City for five tax years, and thereafter, will be taxed by the City at 50% of current assessed value for an additional five years. For the purposes of levying taxes, residential buildings meeting the definition of historical sites and having been substantially rehabilitated or restored will for a period of ten years retain the property value assessed prior to such rehabilitation or restoration.

Historical Preservation Area Exemptions

The City offers a 20% tax exemption for owner-occupied residences located within new local historic districts. The exemption is effective on the first day of historic district designation and extends for a maximum of 15 years (ten years plus a five-year extension). The purpose of the exemption is to offset any potential property tax increases and to limit gentrification in the district, a term which refers to the effect of forcing lower-income residents in a neighborhood to move, which often includes a higher proportion of elderly residents, because of higher property taxes. Property taxes may or may not increase as a result of historic designation. The Bexar County Appraisal District does not automatically increase the assessed valuations of designated properties. Appraisals are based upon real estate market factors that affect consumer demand in an area, of which historic designation is one.

Freeport Goods Exemptions

"Freeport goods" are goods, wares, merchandise, other tangible personal property and ores, other than oil, natural gas, and other petroleum products, which have been acquired or brought into the State for assembling, storing, manufacturing, repair, maintenance, processing, or fabricating, or used to repair or maintain aircraft of a certified air carrier, and shipped out of the State within 175 days. As a result of a State constitutional amendment passed by Texas voters on November 7, 1989, goods in transit ("freeport goods") are exempted from taxation. The City has elected to allow the exemption.

Article 8, Section 1-d-1 Special Appraisals

The Property Tax Code also provides special appraisal of open-space land devoted to farm, ranch, or wildlife management purposes on the basis of its productive capacity rather than its market value. If the open space designation is lost by changing the use of the property, the City can impose taxes on the land equal to the difference between the taxes imposed on the land for each of the five years preceding the year in which the change of use occurs and the tax that would have been imposed had the land been taxed on the basis of market value.

Tax Phase-In Agreements

The City may designate areas within the City as a reinvestment zone. Thereafter, the City may enter into a tax phase-in agreement with owners of property within the zone. Before entering into a tax phase-in agreement, each entity must adopt guidelines and criteria for establishing tax phase-ins in the zone, which each entity with taxing authority over the designated property will follow in granting tax phase-ins. The tax phase-in agreement may exempt from ad valorem taxation all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed. The property is exempt on the condition that the property owner makes specified improvements or repairs to the property in conformity with the terms of the tax phase-in agreement. The agreement may include each of the applicable taxing jurisdictions, including the City, for a period of up to 10 years. The City and County tax phase-in agreements are not required to be substantially the same, with the exception of projects located in a State-designated enterprise zone. Since 1989, the City has entered into 75 tax phase-in agreements; 43 are active; and 32 have expired or are inactive. The following table depicts, as of April 10, 2006, 43 active tax phase-in agreements.

Active Tax Phase-In Agreements

Company	Phase-In Period	Phase-In Term (Years)	Percent of Phase-In (Type of Property*)
Silver Rio (Westin Riverwalk Hotel)	1997-2006	10	Real & Personal @ 100%
Valero (formerly Diamond Shamrock)	1997-2006	10	Real @ 100%; Personal @ 80%
MSPA Acquisition II, L.P. (Adams Mark Hotel)	1997-2006	10	Real & Personal @ 100%
Oberthur Gaming Technologies	1997-2006	10	Real @ 100%
Richter's Bakery/Flowers Bakery	1997-2006	10	Real @ 100%; Personal @ 50%
Takata Seat Belts	1997-2006	10	Real @ 100%; Personal @ 50%
Cadillac Lofts	1998-2007	10	Real @ 90%
Boeing Aerospace, Inc.	1999-2008	10	Personal @ 90%
Capital Group/American Funds	1999-2008	10	Real & Personal @ 100%
LCWW Partners (Westin La Cantera Resort Hotel)	1999-2008	10	Real & Personal @ 100%
S.A. Aerospace	2001-2010	10	Real @ 100%
Coilplus Texas	2001-2006	6	Real @ 100%
PacificCare Health Systems/Opus South	2001-2006	6	Real @ 100%
Chase Bank Credit Card Services – Phase 1	2001-2010	10	Personal @ 100%
Chase Bank Credit Card Services – Phase 2	2002-2011	10	Real & Personal @ 100%
Chase Bank Credit Card Services – Phase 4	2002-2011	10	Personal @ 100%
H.B. Zachry	2002-2011	10	Real @ 100%
Chase Bank Credit Card Services – Phase 3	2003-2012	10	Real @ 100%
MedLine	2003-2012	10	Personal @ 100%
Texas Machining Enterprises II, L.L.P.	2003-2011	10	Personal @ 100%
AeroSky	2004-2009	6	Real @ 100%
HEB (Meat Packing)	2004-2009	6	Real @ 100%
Maxim Integrated Products	2005-2014	10	Personal @ 100%
First Health	2006-2011	6	Real @ 100%
DPT	2006-2015	10	Real & Personal @ 100%
Karta Technologies, Inc.	2006-2011	6	Real @ 100%
Washington Mutual Bank	2006-2015	10	Personal @ 100%
CEDRA Clinical Research, LLC	2006-2011	6	Real @ 100%
Ark, Inc.	2007-2016	10	RPIS @ 80%
Avanzar Interior Technologies, Ltd.	2007-2016	10	RPIS @ 100%
Curtis-Maruyasu America, Inc.	2007-2016	10	RPIS @ 100%
Futaba Industrial Texas Corp.	2007-2016	10	RPIS @ 80%
Green Metals, Inc.	2007-2016	10	RPIS @ 80%
HERO Assemblers, LP	2007-2016	10	RPIS @100%
HERO Logistics, LP	2007-2016	10	RPIS @ 80%
Metalsa Light Truck, Inc.	2007-2016	10	RPIS @ 100%
Millennium Steel of Texas, LP	2007-2016	10	RPIS @ 80%
Reyes Automotive Group, LLC	2007-2016	10	RPIS @ 80%
Reyes-Amtex Automotive, LLC	2007-2016	10	RPIS @ 100%
Takumi Stamping Texas, Inc.	2007-2016	10	RPIS @ 80%
Tenneco Automotive Services Texas, Inc.	2007-2016	10	RPIS @ 80%
Toyoda Gosei Texas, LLC	2007-2016	10	RPIS @ 80%
Toyotetsu Texas, Inc.	2007-2016	10	RPIS @ 80%
Vutex, Inc.	2007-2016	10	RPIS @ 80%

* RPIS: Real and Personal Property Improvements, Inventory and Supplies.

Appraised Value Limitations

All real and personal property of the City within Bexar County must be appraised by the Appraisal District at market value as of January 1 of each year. The City's real and personal property within Comal County is appraised by the Comal Appraisal District. Such appraisal values are subject to review and change by the Bexar Appraisal Review Board and the Comal Appraisal Review Board, respectively. State law, however, provides for limitations on appraised value of residential homesteads. The appraised value of a residential homestead may not exceed the lesser of:

1. the market value of the property; or
2. the sum of:
    a. 10% of the appraised value of the property for the last year in which the property was appraised times the number of years since the property was last appraised;
    b. the appraised value of the property for the last year in which the property was appraised; and the market value of all new improvements to the property.

Absolute Pro-Rated Exemptions

If the federal government, the State, or a political subdivision of the State acquires title to taxable property, the amount of the tax due on the property is calculated by multiplying the amount of taxes imposed on the property for the entire year by a fraction, the denominator of which is 365 and the numerator of which is the number of days that elapsed prior to the date of the conveyance.

Effective Tax Rate and Rollback Tax Rates

The City must annually calculate and publicize its "effective tax rate" and "rollback tax rate." The City Council may not adopt a tax rate that exceeds the lower of the rollback tax rate or 103% of the effective tax rate until it has held two public hearings on the proposed increase following notice to the taxpayers and otherwise complied with the Property Tax Code. If the adopted tax rate exceeds the rollback tax rate, the qualified voters of the City, by submission of a valid petition, may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

"Effective tax rate" means the rate that will produce last year's total tax levy (adjusted) from this year's total taxable values (adjusted). "Adjusted" means lost values are not included in the calculation of last year's taxes and new values are not included in this year's taxable values.

"Rollback tax rate" means the rate that will produce last year's maintenance and operation tax levy (adjusted) from this year's values (adjusted) multiplied by 1.08 plus a rate that will produce this year's debt service from this year's values (adjusted) divided by the anticipated tax collection rate.

Reference is made to the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

Taxpayer Remedies

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the City and provides for taxpayer referenda, which could result in the repeal of certain tax increases. The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

Levy and Collection of Taxes

By the later of September 30 or 60 days after the certified appraisal roll is delivered to the City, the rate of taxation is adopted by the City based upon the taxable valuation of property within the City as of the preceding January 1. The

City has executed an inter-local agreement with the Bexar County Tax Assessor/Collector's Office to provide property tax billing and collection services at the same level of service to its citizens as previously provided by the City.

Property taxes are due and payable on October 1 and considered delinquent if not paid by the following January 31. A delinquent tax incurs a penalty of 6% for the first calendar month it is delinquent, plus 1% for each of the following four months, and 2% for the sixth month it is delinquent, for a total of 12%. A delinquent tax also incurs interest at the rate of 1% per month until paid in full. If a tax is not paid before July 1 of the year in which it becomes delinquent, the tax incurs an additional fee of up to 20% to offset the costs of collection.

The City does not allow for discounts for early payment, but does allow for split payment of property taxes (one-half before December 1, and the remaining one-half without penalty and interest before July 1 of the following year). The City also allows for installment payments for homeowners who qualify for the residential homestead exemption (one-fourth before January 31, one-fourth before April 1, one-fourth before June 1, and the remaining one-fourth before August 1).

City's Rights in the Event of Tax Delinquencies

Taxes levied by the City are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all State and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each local taxing unit, including the City, having power to tax the property. The City's tax lien is on a parity with tax liens of such other taxing units. A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the City is determined by applicable federal law. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

At any time after taxes on property become delinquent, the City may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the City must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem a residence homestead property within two years after the purchaser's deed is filed for record) or by bankruptcy proceedings which restrict the collection of taxpayer debts. Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases, post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

Tax Increment Reinvestment Zone Financing

The City has approved "Guidelines and Criteria" for the utilization of Tax Increment Financing ("TIF") and the creation of Tax Increment Reinvestment Zone ("TIRZ") pursuant to Chapter 311 of the Texas Tax Code, as amended. Since 1998, the City has utilized TIF as a vehicle to fund in whole or in part eligible capital costs related to economic development, commercial and residential projects. As of September 30, 2005, thirteen TIRZs have been approved and one TIRZ has been dissolved. The active TIRZs are also referred to as the Rosedale, Highland Heights, New Horizons, Mission Del Lago, Brookside, Houston Street, Stablewood Farms, Inner City, Plaza Fortuna, Lackland Hills, Sky Harbor, and North East Crossing Projects. The TIRZs were established in order to finance the costs of public improvements to be made in each of the TIRZ which were created for various purposes, including the construction of single family and multi-family residential housing and commercial development projects, and included reimbursing developers from TIRZ revenues for the costs of public improvements, as well as, in the Houston Street TIRZ, the issuance of certificates of obligation by the City payable from the Houston Street TIRZ revenues to pay a portion of the costs of public improvements.

Tax Data **Table 7**

Tax Year	Fiscal Year Ended 9/30	Net Taxable Assessed Valuation[1]	Tax Rate	Ad Valorem Tax Levy	Percent (%) Collections Current	Percent (%) Collected Total
1996	1997	$28,320,799,143	$0.57979	$164,201,161	98.24	99.23
1997	1998	29,422,284,674	0.57979	170,587,464	98.42	99.75
1998	1999	31,253,551,025	0.57979	181,204,963	98.35	99.86
1999	2000	33,315,478,862	0.57979	193,159,815	98.14	99.80
2000	2001	36,033,321,329	0.57979	208,917,594	97.89	99.30
2001	2002	39,587,584,280	0.57854	229,030,010	97.78	99.25
2002	2003	41,535,547,008	0.57854	240,299,754	97.78	99.23
2003	2004	44,583,138,927	0.57854	257,931,292	97.96	99.58
2004	2005	46,495,458,409	0.57854	268,994,825	98.32	100.27
2005	2006	50,222,552,144[2]	0.57854	290,557,553	(Billing pending)	

[1] Based on Net Taxable Assessed Valuation certified by the Bexar Appraisal District.
[2] Based on Tax Year 2005 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of July 25, 2005.

DEBT AND TAX RATE LIMITATIONS

No direct debt limitation is imposed on the City under current Texas law; however, the City Charter provides that the total bonded debt of the City must never exceed 10% of the total assessed valuation of property shown by the last assessment roll, exclusive of (1) any indebtedness secured in whole or in part by special assessments; (2) the bonded debt of any improvement district; and (3) any indebtedness secured by revenues, other than taxes of the City or of any department or agency thereof. In addition, Article XI, Section 5 of the State Constitution is applicable to the City, and limits its maximum ad valorem tax rate to $2.50 per $100 assessed valuation for all City purposes. The City operates under a City Charter that adopts this constitutional provision. The Texas Attorney General has adopted an administrative policy that prohibits the issuance of debt by a municipality, such as the City, if its issuance produces debt service requirements exceeding that which can be paid from $1.50 of the foregoing $2.50 maximum tax rate calculated at 90% collection. The issuance of the 2006 Forward Refunding Bonds will not exceed the above described limits or violate the Texas Attorney General's administrative policy. The following obligations, among others, may be issued by the City:

- Ad valorem tax-supported debt to finance capital improvements and to refund obligations previously issued for such purpose. A majority vote of the qualified voters is ordinarily required to authorize the issuance of ad valorem tax-supported debt, other than refunding bonds, certificates of obligations, tax anticipation notes, and public property finance contractual obligations.
- Certificates of obligation may be issued for the purpose of paying contractual obligations incurred in the construction of public works or the purchase of land, materials, and other supplies or services for the City's needs and for professional services without an election except under certain circumstances. The certificates of obligation may be refunded by ad valorem tax-supported bonds without an election. In addition, the City may issue certificates of obligation with a pledge of both tax and revenues derived from the operation of the facility to be acquired, or from any other lawful source, provided that the City otherwise has the right to pledge the revenues involved. Authority for the issuance of certificates of obligation is subject to notice by publication and right of referendum by the voters.
- Contractual obligations, generally to finance personal property, and tax anticipation notes payable from ad valorem taxes may be issued for capital improvements. The contractual obligations and tax anticipation notes may be refunded by ad valorem tax-supported bonds without an election. The issuance of contractual obligations and tax anticipation notes does not require publication of notice or voter approval. Tax anticipation notes are limited to seven years amortization or less.

- Revenue bonds may be issued for certain purposes which include the financing of the water, municipal drainage and sanitary sewer systems, electric and gas systems, convention centers, airports and parking systems. The revenue bond indebtedness is not considered in determining the legal debt margin on ad valorem tax-supported obligations. Revenue bond indebtedness, in certain cases, can be refunded by ad valorem tax-supported bonds without an election.

Tax Rate Distribution **Table 8**

	Fiscal Year Ended September 30				
Tax Rate	2006	2005	2004	2003	2002
General Fund	$ 0.36704	$ 0.36704	$ 0.36704	$ 0.36204	$ 0.35454
Interest and Sinking Fund	0.21150	0.21150	0.21150	0.21650	0.22400
Total Tax Rate	$ 0.57854	$ 0.57854	$ 0.57854	$ 0.57854	$ 0.57854

Principal Taxpayers **Table 9**

Name	Type of Property	FY 2006 Taxable Assessed Valuation	Percent (%) of FY 2006 Taxable Assessed Valuation
H.E. Butt Grocery Company	Retail/Grocery	$ 637,007,009	1.27
AT&T	Telecommunications	384,787,445	0.77
United States Automobile Association	Insurance/Banking	317,250,090	0.63
Wal-Mart Stores, Inc.	Retail/Grocery	288,885,317	0.58
Marriott Corporation	Hotel Chain	210,394,770	0.42
Methodist Healthcare System	Hospital/Healthcare	205,330,437	0.42
Valero	Oil Refiner/Retail Gas Stations	146,144,732	0.29
Alamo Stonecrest Holdings	Shopping Centers	144,909,548	0.29
Hyatt Regency Hotels	Hotel Chain	143,670,460	0.29
Time Warner	Cable Television	139,250,090	0.28
Total		$2,617,629,898	5.24

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Net Taxable Assessed Valuation for Tax Years 1996-2005 — Table 10

Tax Year	Fiscal Year Ended 9/30	Net Taxable Assessed Valuation[1]	Change From Preceding Year Amount	Change From Preceding Year Percent (%)
1996	1997	$28,320,799,143	---	---
1997	1998	29,422,284,674	$1,101,485,531	3.89
1998	1999	31,253,551,025	1,831,266,351	6.23
1999	2000	33,315,478,862	2,061,927,837	6.60
2000	2001	36,033,321,329	2,717,842,467	8.16
2001	2002	39,587,584,280	3,554,262,951	9.87
2002	2003	41,535,547,008	1,947,962,728	4.92
2003	2004	44,583,138,927	3,047,591,919	7.34
2004	2005	46,495,458,409	1,912,318,482	4.29
2005	2006	50,222,552,144[2]	3,727,093,735	8.02

[1] Based on Net Taxable Assessed Valuation certified by the Bexar Appraisal District.
[2] Based on Tax Year 2005 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of July 25, 2005.

Net Taxable Assessed Valuation and Ad Valorem Tax Debt — Table 11

Tax Year	Fiscal Year Ended 9/30	Net Taxable Assessed Valuation[1]	Ad Valorem Gross Debt	Debt Ratios Percent (%)
1996	1997	$28,320,799,143	$740,393,108	2.62
1997	1998	29,422,284,674	734,238,108	2.50
1998	1999	31,253,551,025	754,958,108	2.42
1999	2000	33,315,478,862	780,378,108	2.35
2000	2001	36,033,321,329	768,693,108	2.14
2001	2002	39,587,584,280	838,428,108	2.12
2002	2003	41,535,547,008	881,038,108	2.13
2003	2004	44,583,138,927	821,843,108	1.85
2004	2005	46,495,458,409	872,090,124	1.88
2005	2006	50,222,552,144[2]	812,740,000	1.62

[1] Based on Net Taxable Assessed Valuation certified by the Bexar Appraisal District.
[2] Based on Tax Year 2005 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of July 25, 2005.

Authorized But Unissued Ad Valorem Tax Debt — Table 12

Date of Authorization	Improvements	Amount Authorized	Bonds Issued To Date	Bonds Authorized But Unissued
11/4/2003	Street & Pedestrian	$ 29,398,217	$18,828,217	$10,570,000
11/4/2003	Drainage	18,912,770	15,491,770	3,421,000
11/4/2003	Parks & Recreation	27,224,013	24,522,013	2,702,000
11/4/2003	Library System	3,965,000	3,065,000	900,000
11/4/2003	Public Health & Safety	35,500,000	4,768,000	30,732,000
		$115,000,000	$66,675,000	$48,325,000

Classification of Assessed Valuation

Table 13

	Fiscal Year 2006[1]	Percent (%) of Total	Fiscal Year 2005	Percent (%) of Total	Fiscal Year 2004	Percent (%) of Total	Fiscal Year 2003	Percent (%) of Total	Fiscal Year 2002	Percent (%) of Total
Real, Residential, Single-Family	$30,792,593,480	54.18	$28,531,159,886	55.07	$26,981,363,241	54.26	$25,034,363,533	54.05	$23,042,259,879	52.23
Real, Residential, Multi-Family	3,643,957,987	6.41	3,112,925,126	6.01	2,984,890,416	6.00	2,717,427,164	5.87	2,709,129,752	6.14
Real, Vacant Lots/Tracts	856,131,464	1.51	1,148,570,421	2.22	1,198,802,978	2.41	1,126,243,791	2.43	1,128,002,482	2.56
Real, Acreage (Land Only)	603,571,215	1.06	618,149,677	1.19	638,456,965	1.28	575,936,197	1.24	593,891,997	1.35
Real, Farm and Ranch Improvements	18,585,276	0.03	13,675,489	0.03	10,930,317	0.02	10,324,941	0.02	10,838,121	0.02
Real, Commercial	11,730,824,217	20.64	11,031,778,981	21.29	10,444,949,652	21.01	9,758,713,978	21.07	9,648,251,767	21.87
Real, Industrial	355,818,959	0.63	5,085,100	0.01	296,110,000	0.60	281,431,440	0.61	280,721,510	0.64
Real, Minerals, Oil and Gas	156,660	0.00	39,040	0.00	21,530	0.00	25,840	0.00	41,210	0.00
Real and Tangible, Personal Utilities	528,219,137	0.93	50,530,400	0.10	568,375,000	1.14	611,213,510	1.32	887,733,010	2.01
Tangible Personal, Commercial	5,179,777,151	9.11	6,867,130,053	13.25	4,897,160,982	9.85	4,567,575,590	9.86	4,536,610,190	10.28
Tangible Personal, Industrial	1,296,342,917	2.28	-0-	0.00	1,220,050,050	2.45	1,145,800,919	2.47	835,935,050	1.89
Tangible Personal, Mobile Homes	96,263,497	0.17	98,492,969	0.19	102,184,758	0.21	98,236,520	0.21	83,188,740	0.19
Real Property, Inventory	195,713,542	0.35	191,479,359	0.37	142,405,282	0.29	154,262,049	0.33	135,157,724	0.31
Special Inventory Tax	252,507,804	0.44	22,990	0.00	237,410,270	0.48	239,240,740	0.52	228,768,060	0.52
Exempt Property	1,282,807,424	2.26	141,337,410	0.27	174,700	0.00	-0-	0.00	5,600	0.00
Total Assessed Value	$56,833,270,730	100.00	$51,810,376,901	100.00	$49,723,286,141	100.00	$46,320,796,212	100.00	$44,120,535,092	100.00
Less:										
Optional 65 Years of Age or Older Homestead Exemptions	$ 3,773,286,270		$ 3,805,608,883		$ 3,724,266,517		$ 3,384,996,852		$ 3,132,670,748	
Optional 65 Years of Age or Older Homestead Exemptions Pro-Rated	-0-		-0-		25,474,801		42,579,166		81,397,988	
Deceased/Disabled Veterans' Exemptions	173,753,074		173,545,776		121,505,478		116,497,985		105,709,837	
Disabled Residence Homestead Exemptions	105,675,153		-0-		-0-		-0-		-0-	
Historical Property Exemptions	31,052,880		33,822,228		25,341,198		26,278,818		25,081,549	
Historical Preservation Area Exemptions	-0-		2,905,902		1,200,136		1,141,781		-0-	
Freeport Goods Exemptions	331,699,380		270,308,370		278,560,740		296,922,420		318,663,870	
Article 8, Section 1-d-1 Special Appraisals	264,886,902		278,168,178		289,077,692		257,595,602		255,213,756	
Tax Phase-In Agreements	415,214,415		448,091,914		443,930,328		386,918,532		368,613,029	
Residence Homestead 10% Limitations	213,045,090		131,011,433		195,043,337		235,530,114		204,099,139	
Absolute Pro-Rated Exemptions	3,850,652		29,535,136		35,746,987		36,787,934		41,500,896	
Pollution Control Exemptions	5,675,890		-0-		-0-		-0-		-0-	
Community Housing Development Corp.	8,994,535		629,746		-0-		-0-		-0-	
Absolute Exemptions	1,283,584,345		141,290,926		-0-		-0-		-0-	
Less: Total Exemptions	$ 6,610,718,586		$ 5,314,918,492		$ 5,140,147,214		$ 4,785,249,204		$ 4,532,950,812	
Net Taxable Assessed Valuation	$50,222,552,144		$46,495,458,409		$44,583,138,927		$41,535,547,008		$39,587,584,280	

Sources: City of San Antonio, Finance Department, and the Bexar Appraisal District

[1] Based on Tax Year 2005 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of July 25, 2005.

Assessed Valuation and Tax Rate of Overlapping Issuers **Table 14**

Governmental Subdivision	FY 2006 Gross Assessed Valuation	FY 2006 Net Taxable Value	FY 2006 Tax Rate
Alamo Community College District	$73,589,496,854	$67,572,598,741	0.107050
Alamo Heights Independent School District	4,013,074,475	3,212,504,682	1.656600
Bexar County	73,599,590,532	65,488,582,704	0.318471
Bexar County Flood Control	73,540,739,091	68,801,811,421	0.012719
Bexar County Hospital District d.b.a. University Health System	73,530,591,651	69,449,963,657	0.243869
East Central Independent School District	1,669,055,390	1,142,336,679	1.680000
Edgewood Independent School District	1,131,595,445	723,180,800	1.722200
Harlandale Independent School District	1,324,037,425	937,993,341	1.756000
Judson Independent School District	4,658,011,663	3,788,681,882	1.776000
North East Independent School District	22,669,330,528	18,545,543,378	1.794000
Northside Independent School District	22,383,631,982	18,442,481,201	1.775000
San Antonio Independent School District	10,668,222,934	8,224,889,339	1.722000
San Antonio River Authority	73,530,591,651	67,514,057,729	0.016425
Somerset Independent School District	359,547,913	217,743,913	1.685000
South San Antonio Independent School District	1,097,104,977	848,783,872	1.840000
Southside Independent School District	501,455,430	332,174,120	1.720000
Southwest Independent School District	952,883,414	668,863,118	1.618800

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Direct and Overlapping Debt Data and Information — Table 15

The following table indicates the indebtedness, defined as outstanding obligations payable from ad valorem taxes, of governmental entities overlapping the City, and the estimated percentages and amounts of such indebtedness attributable to property within the City. Expenditures of the various taxing bodies overlapping the territory of the City are paid out of ad valorem taxes levied by these taxing bodies on properties overlapping the City. These political taxing bodies are independent of the City and may incur borrowings to finance their expenditures without any control of the City. The following statements of direct and estimated overlapping ad valorem tax bonds were developed from information obtained from each taxing entity. Except for the amounts relating to the City, the City has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed below may have authorized or issued additional obligations since the date stated below, and such entities may have programs requiring the authorization and/or issuance of additional obligations, the amount of which cannot be determined.

Taxing Entity[1]	Amount of Gross Debt	Percent	Amount Overlapping
Alamo Community College District	$ 25,299,000	78.43%	$ 19,842,006
Alamo Heights Independent School District	80,067,687	51.04%	40,866,548
Bexar County	163,519,811	78.17%	127,823,437
Bexar County Hospital District dba University Health System	-	100.00%	-
Comal Independent School District	172,405,502	0.02%	34,482
East Central Independent School District	55,423,425	50.18%	27,811,475
Edgewood Independent School District	124,456,071	100.00%	124,456,071
Harlandale Independent School District	154,034,723	100.00%	154,034,723
Judson Independent School District	202,862,953	39.62%	80,374,302
North East Independent School District	772,565,357	88.78%	685,883,524
Northside Independent School District	1,030,486,943	82.26%	847,678,560
San Antonio Independent School District	519,184,572	99.09%	514,459,993
San Antonio River Authority	55,900,000	96.25%	53,803,750
Somerset Independent School District	28,441,481	1.46%	415,246
South San Antonio Independent School District	118,635,265	100.00%	118,635,265
Southside Independent School District	47,095,000	20.89%	9,838,146
Southwest Independent School District	51,890,000	45.81%	23,770,809
Total Gross Overlapping Debt	$ 3,602,267,790		$ 2,829,728,337
City of San Antonio	$ 872,090,124		$ 872,090,124
Total Direct and Overlapping Debt	$ 4,474,357,914		$ 3,701,818,461

Tax Year 2005 Actual Market Value of Taxable Property	$ 56,833,270,731
Tax Year 2005 Net Taxable Assessed Valuation (100% of Actual Market)	$ 50,222,552,145
Ratio of Direct and Overlapping Debt to Actual Market Value	6.52%
Ratio of Direct and Overlapping Debt to Net Taxable Assessed Value	7.37%
Per Capita Direct and Overlapping Debt	$ 2,833

Note: The City’s total net debt payable from ad valorem taxes is $871,060,124 as of September 30, 2005.
Calculations on the basis of total net debt payable from ad valorem taxes would change the above figures as follows:

Total Net Direct and Overlapping Debt	$ 3,700,788,461
Ratio of Net Direct and Overlapping Debt to Actual Market Value	6.52%
Ratio of Net Direct and Overlapping Debt to Net Taxable Assessed Value	7.37%
Per Capita Net Direct and Overlapping Debt[2]	$ 2,832

1 Certain bonds issued by Texas Independent School Districts are eligible for payment form the State "Instructional Facilities Allotments" and from "Existing Debt Allotments." These bonds, while obligations of each school district, are payable in part from direct allocations of State funds. Such funding varies between districts and from year to year depending upon the State's contribution, which is based on a district's property taxable wealth per student in average daily attendance.

2 Based on the City's Planning Department estimated population of 1,306,900 as of December 31, 2005 for the City of San Antonio (figure includes those individuals residing within areas expected to be annexed by the City by such date.)

REVENUE SOURCES AND EXPENDITURES

Sources of Revenues

The City's General Fund revenue sources include ad valorem taxes, sale taxes, franchise taxes, contributions from City-owned utilities, fines, penalties, licenses and permits, various service charges, and miscellaneous sources.

General Fund Comparative Statement of Revenues and Expenditures and Analysis of Changes in Fund Balances — Table 16

The following statements set forth in condensed form reflect the historical operations of the City. The City has prepared such summary for inclusion herein based upon information obtained from the City's Comprehensive Annual Financial Report and financial records. Reference is made to such statements for further and complete information.

	Fiscal Year Ended September 30				
	2005*	2004	2003	2002	2001
Fund Balance - Beginning of Year	$ 98,510,654	$ 81,642,072	$ 62,452,494	$ 96,198,138	$105,702,670[1]
Revenues					
Taxes	$367,756,008	$343,707,952	$320,518,083	$310,912,963	$291,378,953
Licenses and Permits	20,715,743	17,026,379	13,912,258	13,302,392	12,683,156
Intergovernmental	3,055,128	2,695,842	2,878,131	2,888,626	2,865,885
Revenues from Utilities	221,830,584	196,405,099	210,466,156	171,234,083	187,939,902
Charges for Services	33,622,089	30,029,118	27,283,429	24,631,495	23,211,576
Fines and Forfeits	12,025,344	11,713,073	11,282,396	10,828,974	11,116,047
Miscellaneous	13,794,442	10,758,387	9,810,913	12,054,469	14,249,362
Total Revenues	$672,799,338	$612,335,850	$596,151,366	$545,853,002	$543,444,881
Expenditures[2]					
General Government	$ 66,881,442	$ 54,214,920	$ 53,416,465	$ 57,213,168	$ 69,212,609
Public Safety	405,837,559	376,925,001	361,835,168	351,557,071	327,362,706
Streets and Roadways	10,477,765	10,656,685	11,920,629	10,244,816	9,869,123
Health Services	14,383,544	13,409,924	13,814,613	14,076,213	13,423,252
Sanitation	2,582,840	2,380,287	2,515,192	2,663,359	2,754,611
Welfare	22,169,623	16,480,979	16,317,480	17,662,015	17,158,677
Culture and Recreation	63,478,741	57,918,951	59,119,473	59,755,427	58,341,346
Economic Development and Opportunity	4,552,704	8,043,283	5,537,792	7,632,008	6,791,425
Total Expenditures	$590,364,218	$540,030,030	$524,476,812	$520,804,077	$504,913,749
Excess of Revenues Over Expenditures	$ 82,435,120	$ 72,305,820	$ 71,674,554	$ 25,048,925	$ 38,531,132
Other Financing Sources (Uses)					
Operating Transfers In	$ 14,820,936	$ 15,348,182	$ 13,120,941	$ 11,198,493	$ 19,042,598
Operating Transfers Out	(86,649,587)	(76,440,760)	(70,377,939)	(76,101,511)	(73,789,801)
Total Other Financing Sources (Uses)	$(71,828,651)	$(61,092,578)	$(57,256,998)	$(64,903,018)	$(54,747,203)
Add Encumbrances[2]	8,208,690	5,655,340	4,772,022	6,108,449	6,711,539
Fund Balance - End of Year	$117,325,813	$ 98,510,654	$ 81,642,072	$ 62,452,494	$ 96,198,138

* Unaudited. The City anticipates that its audited financial statements for the period ending September 30, 2005 will be finalized on or about May 31, 2006.

[1] For fiscal year 2001, the City implemented GASB Statement No. 33, "Accounting and Financial Reporting for Non Exchange Transactions," as amended by GASB Statement No. 36 "Recipient Reporting for Certain Shared Non Exchange Revenues," which resulted in the restatement of certain prior year balances for the City's General Fund. For comparative purposes, the prior year's tax revenues and fund balances have been restated for the impact of GASB Statement No. 33. These amounts have been excerpted from the City's Comprehensive Annual Financial Report as adjusted for the impact of GASB No. 33 and GASB No. 36.

[2] Expenditures are reported on a budgetary basis with encumbrances added back to arrive at a GAAP fund balance.

Sales Taxation

Authority to Levy Sales Taxes

The City is governed by the provisions of Chapter 321 of the Texas Tax Code, as amended, which authorizes the City to levy and collect a municipal sales and use tax on the receipts from the sale of taxable items within the City at a rate of 1%. Pursuant to other state law provisions, the City may also adopt an increased sales tax for particular purposes.

The Texas Tax Code provides that certain cities and counties in the State may submit a proposition to the voters to authorize an additional sales tax on retail sales or taxable items to reduce the property tax levy. If the additional tax is levied, the effective tax rate and the rollback tax rate calculations are required to be offset by the revenue that will be generated by the sales tax in the current year. The City is disqualified from adopting this additional sales and use tax because the City is included within the boundaries of a rapid transit authority created under Chapter 451, Transportation Code.

Legislation

Advanced Transportation District. A proposition was passed during the November 2, 2004 election which allows VIA Metropolitan Transit ("VIA") to create an Advanced Transportation District ("District") within the City and impose an additional one quarter of one percent (¼ of 1%) sales and use tax. The ¼% sales and use tax is allocated as follows: fifty percent (50%) will be used for advanced transit services, operations, passenger amenities, equipment and other advanced transportation purposes; twenty-five percent (25%) will be used to construct, improve and maintain streets and sidewalks and related infrastructure to improve mobility and other advance transportation purposes in the District; and twenty-five percent (25%) will be used as the local share to obtain state and federal grants for highways, transportation infrastructure designed to improve mobility and other advanced transportation purposes in the District. With the imposition of this additional sales and use tax, the City's sales tax rate increased to eight percent (8%), effective April 1, 2005.

Edwards Aquifer Protection Venue Project. The City Council adopted Resolution No. 2004-27-23 designating an Edwards Aquifer Protection Venue Project ("Edwards Venue Project") under Chapter 334 of the Texas Local Government Code ("Venue Code"). As required by the Venue Code, the City forwarded a copy of the Resolution to the Texas Comptroller for her determination as to whether the implementation of the Edwards Venue Project would have a significant negative impact on state revenue. This determination is required prior to the City Council calling an election on the matter. The Comptroller determined that implementation of this Resolution would not have a significant fiscal impact on State revenue.

As such, City Council passed Ordinance No. 99608, which authorized an election to be held on May 7, 2005 to authorize the implementation of the Edwards Venue Project under the Venue Code and the imposition of a one-eight of one percent (1/8 of 1%) sales and use tax. The Proposition provides for the protection of water quality in the Edwards Aquifer by establishing a watershed protection and preservation project to acquire and preserve land or interests in land in the Edwards Aquifer recharge and contributing zones both inside and outside Bexar County.

Parks Development and Expansion Venue Project. The City Council has also adopted Resolution No. 2004-29-25 designating a Parks Development and Expansion Venue Project ("Parks Venue Project") under the Venue Code. As required by the Code, the City forwarded a copy of the Resolution to the Texas Comptroller for her determination as to whether the implementation of the Parks Venue Project would have a significant negative impact on State revenue. This determination is required prior to the City Council calling an election on the matter. The Comptroller determined that implementation of this Resolution would not have a significant negative fiscal impact on State revenue.

As such, City Council passed Ordinance No. 100327, which authorized an election to authorize the implementation of the Parks Venue Project under the Venue Code and the imposition of a one-eighth of one percent (⅛ of 1%) sales and use tax. The Parks Venue Project provides for the planning, acquisition, establishment, development, construction or renovation of the Parks Venue Project which includes the acquisition of open space and linear parks along Leon Creek, Salado Creek, Medina River and San Antonio River, and for improvements and additions to the Municipal Parks and Recreation System.

Both the Edwards Venue Project and the Parks Venue Project were placed on the May 7, 2005 ballot for approval by the voters, and the two Venue Projects will share in the use of the one-eighth of one percent (⅛ of 1%) sales and use tax.

On May 17, 2005, City Council canvassed the May 7, 2005 election and found that each of the Propositions received a favorable majority vote, which authorized the City to establish the Edwards Aquifer Venue Project and the Parks Development and Expansion Venue Project, and to impose a one-eighth of one percent (⅛ of 1%) sales and use tax. Notice of the election results were given to the Comptroller, seeking the imposition of a ⅛ of 1% sales and use tax, as required by the Venue Code and Tax Code. This sales and use tax took effect October 1, 2005, bringing the City's total sales and use tax rate of 8⅛% (8.125%).

Crime Control and Prevention District. Pursuant to Texas Local Government Code, Chapter 363, entitled the "Crime Control and Prevention District Act" (the "Act), a governing body of a municipality may propose the creation of a crime control district ("CCPD") and the imposition of a sales and use tax for the financing of the CCPD. The sales and use tax may be authorized only if the creation and the tax are approved by a majority of the qualified voters of the proposed CCPD voting at the election called and held for that purpose. On March 10, 2005, the City Council through Ordinance No. 100539 proposed the creation of the City of San Antonio, Texas Crime Control and Prevention District. On April 28, 2005, the City Council appointed seven persons that reside in the proposed CCPD to serve as Temporary Board of Directors of the proposed CCPD, through Resolution No. 2005-18-17.

Section 363.054 of the Act authorizes the Temporary Board to order an election on the question of creating the City of San Antonio, Texas Crime Control and Prevention District and approving a sales and use tax for the purpose of financing the CCPD, after a majority of the temporary directors of the proposed CCPD have approved a budget plan and a crime control plan in accordance with Section 363.061 of the Act. The Temporary Board of the proposed CCPD formulated and on August 10, 2005 approved a two-year crime control plan and a two-year budget plan. On August 17, 2005, the Temporary Board adopted Order No. 2005-03 calling a special election on the creation of a CCPD and the imposition of a one eighth of one percent (⅛ of 1%) sales and use tax.

The election was held on Tuesday, the 8th day of November, 2005. On November 16, 2005, the Temporary Board canvassed the November 8, 2005 election and found that the CCPD Proposition failed by a vote of 68,734 votes or 60.5% Against and 44,880 or 39.5% For.

At this time, the City can make no determination as to whether the Temporary Board will call another sales tax election for the creation of the CCPD. The state law provides that the Temporary Board may not order another election on the matter earlier than the first anniversary of the date of the preceding election. If a CCPD has not been created before the fifth anniversary of the date the CCPD was created by City Council, the Temporary Board is dissolved on that date and a CCPD may not be created.

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Collections and Equivalent Rates

Net sales tax collections and the equivalent ad valorem tax rates on fiscal year basis are as follows:

Municipal Sales Taxes **Table 17**

Fiscal Year Ended 9/30	Sales Tax Collected	Ad Valorem Tax Levy[1]	Percent (%) of Ad Valorem Tax Levy	Net Taxable Assessed Valuation[2]	Equivalent Tax Rate
1996	$103,032,541	$155,347,338	66.33	$26,793,724,971	$0.38454
1997	110,034,458	164,201,161	67.02	28,320,799,143	0.38853
1998	118,991,708	170,587,464	69.76	29,422,284,674	0.40443
1999	126,472,730	181,204,963	69.80	31,253,551,025	0.40467
2000	135,130,522	193,159,815	69.96	33,315,478,862	0.40561
2001	136,810,787	208,917,594	65.49	36,033,321,329	0.37968
2002	157,593,310	229,030,010	68.81	39,587,584,280	0.39809
2003	156,322,600	240,299,754	65.06	41,535,547,008	0.37636
2004	148,492,475	257,931,292	57.57	44,583,138,927	0.33307
2005*	163,006,223	268,994,825	60.60	46,495,458,409	0.35059

* Unaudited.
[1] Total Ad Valorem Tax Levy for debt service and maintenance and operations.
[2] Based on Net Taxable Assessed Valuation certified by the Bexar Appraisal District.

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Comparison of Selected Sources of Revenues **Table 18**

Fiscal Year Ended 9/30	Taxes[1]	Charges for Services	Miscellaneous	Fines and Forfeits	Licenses and Permits	Inter-Governmental	City Public Service (CPS) Electric & Gas Systems	San Antonio Water System (SAWS) [2]	Stormwater Drainage Fee [2,3]	Total
1996	$214,635,376	$18,422,483	$8,927,797	$9,051,481	$9,438,492	$2,141,719	$133,877,013	$4,799,553	$6,513,000	$407,806,914
1997	228,059,883	18,666,543	9,601,800	8,475,837	9,627,427	2,346,577	136,077,928	4,375,869	13,114,803	430,346,667
1998	245,430,127	21,676,353	10,862,192	11,525,034	11,159,736	2,354,189	146,145,982	4,687,162	13,558,856	467,399,631
1999	261,392,418	21,726,181	12,705,684	11,838,121	12,164,099	2,526,778	145,170,683	4,785,430	14,245,127	486,554,521
2000	277,833,729	23,010,824	13,017,615	11,593,504	12,257,775	2,669,780	167,138,876	5,161,798	16,382,310	529,066,211
2001	291,378,953	23,211,576	14,249,362	11,116,047	12,683,156	2,865,885	182,411,012	5,528,890	16,796,534	560,241,415
2002 [4]	310,912,963	24,631,495	12,054,469	10,828,974	13,302,392	2,888,626	165,118,018	6,116,065	16,609,215	562,462,217
2003 [4]	320,518,083	27,283,429	9,810,913	11,282,396	13,912,258	2,878,131	204,016,870	6,449,286	21,049,293	617,200,659
2004 [4]	343,707,952	30,029,118	10,758,387	11,713,073	17,026,379	2,695,842	189,505,855	6,899,244	22,091,417	634,427,267
2005* [4]	367,756,008	33,638,788	15,582,652	12,025,344	20,715,743	3,119,176	213,440,218	8,390,366	26,272,690	700,940,985

* Unaudited.
1 Comprised of property, sales, alcoholic beverage, and business taxes, and penalties, interest and judgments. Excludes hotel/motel occupancy taxes.
2 SAWS payments and the Stormwater Drainage Fee payments to the City commenced in fiscal year 1993.
3 Beginning in fiscal year 1997, Stormwater Drainage Fee is reported in the Stormwater Operations Special Revenue Fund at Gross Collected Amounts.
4 Beginning in fiscal year 2002, revenues by source included general fund, special revenues, and debt service funds.

Expenditures for Selected Functions [1]

Table 19

Fiscal Year Ended 9/30	General Government	Public Safety	Streets and Roadways	Health Services	Sanitation	Welfare	Culture and Recreation	Economic Development & Opportunity	Total
1996	$42,529,874	$237,255,653	$8,918,131	$10,573,920	$2,773,727	$9,171,600	$41,489,469	$4,561,839	$357,274,213
1997	45,565,493	251,646,029	8,740,273	10,267,013	2,732,660	8,382,401	41,049,946	4,555,513	372,939,328
1998	44,617,078	267,566,794	9,162,860	10,753,132	2,780,539	10,232,506	42,809,012	4,783,117	392,705,038
1999	49,438,915	289,777,427	9,467,167	11,277,893	2,399,358	11,407,269	48,025,859	5,189,929	426,983,817
2000	55,180,174	305,859,236	9,909,813	12,299,792	2,600,995	12,857,131	52,938,397	5,864,158	457,509,696
2001	68,364,225	326,227,746	9,804,123	13,401,383	2,754,077	16,464,593	58,137,342	6,394,692	501,548,181
2002	56,154,675	350,755,902	10,179,816	13,933,748	2,653,746	16,991,511	59,454,085	7,330,135	517,453,618
2003	52,283,057	361,305,240	11,855,629	13,689,587	2,513,841	15,763,551	58,917,420	5,368,634	521,696,959
2004	53,537,883	376,878,295	10,656,685	13,383,921	2,380,287	15,920,832	57,072,648	7,850,046	537,680,597
2005*	66,881,499	405,837,559	10,477,765	14,383,544	2,582,840	22,169,623	63,478,741	4,552,704	590,364,275

* Unaudited.
[1] Expenditures for selected functions do not include encumbrances.

THE CITY

Governmental Structure

The City of San Antonio (the "City") is a Home Rule Municipality that operates pursuant to the City of San Antonio City Charter (the "City Charter"), which was adopted in 1951 and became effective on January 1, 1952. The City Charter provides for a council-manager form of government, whereby subject only to the limitations imposed by the Texas Constitution and the City Charter, all powers of the City are vested in an elective Council (the "City Council") which enacts legislation, adopts budgets and determines policies. The City Council is comprised of eleven (11) members, with ten members elected from single-member districts, and the Mayor elected at-large. Each member of the City Council serves two (2) year terms, and each member is limited to a maximum of two (2) full terms. The office of Mayor is considered a separate office. The terms of all members of the City Council currently sitting in office expire on May 31, 2007.

City Charter

Since its adoption, the City Charter has been amended on five separate occasions; November 1974; January 1977; May 1991; May 1997; and November 2001. Significant amendments to the City Charter include the amendment passed in May of 1991, which limited the service by the Mayor and the City Council members to two full terms, each of which is two years in duration. Two separate City Charter review committees sitting in the early and mid-1990's and charged with conducting a comprehensive review of the City Charter resulted in the passage of five propositions, each containing numerous amendments to the City Charter in May 1997. The most recent amendments to the City Charter occurred in 2001 and included, among others, provisions creating the position of an independent City Internal Auditor and granting the City Manager the power to appoint and remove the City Attorney upon the City Council's advice and/or confirmation.

City Manager Selection

The City Council also appoints a City Manager who executes the laws and administers the government of the City, and serves as the City's chief administrative officer. The City Manager serves at the pleasure of City Council.

Services

The full range of services provided to its constituents by the City includes ongoing programs to provide health, welfare, art, cultural, and recreational services; maintenance and construction of streets, highways, drainage, and sanitation systems; public safety through police and fire protection; and urban redevelopment and housing. The City also considers the promotion of convention and tourism and participation in economic development programs high priorities. The funding sources from which these services are provided include ad valorem, sales and use, and hotel occupancy tax receipts; grants; user fees; bond proceeds; tax increment financing; and other sources.

In addition to the above described general government services, the City provides services financed by user fees set at levels adequate to provide coverage for operating expenses and the payment of outstanding debt. These services include airport, parking, and environmental services.

Electric and gas services to the San Antonio area are provided by City Public Service ("CPS"), an electric and gas utility owned by the City that maintains and operates certain utilities infrastructure. This infrastructure includes a 19 generating unit electric system and the gas system that serves the San Antonio area. CPS' operations and debt service requirements for capital improvements are paid from revenues received from charges to its customers. CPS is obligated to transfer a portion of its revenues to the City. CPS revenue transfers to the City for the City's fiscal year ending September 30, 2005 were $213,440,218[*]. (See "CERTAIN SIGNIFICANT ISSUES AFFECTING THE CITY" herein and "SAN ANTONIO ELECTRIC AND GAS SYSTEM" in Appendix A attached hereto.

[*] Unaudited.

Water, wastewater, recycled water, steam, and chilled water services are provided by the San Antonio Water System ("SAWS"), another City-owned and operated utility. In addition to these services, SAWS contracted with the City to provide certain stormwater services thereto and it manages and develops water resources in the San Antonio region. SAWS is in its 15th year as a separate, consolidated entity that addresses the City's water-related issues in a coordinated and unified manner. SAWS operations and debt service requirements for capital improvements are paid from revenues received from charges to its customers. SAWS is obligated to transfer a portion of its revenues to the City. SAWS revenue transfers to the City for the City's fiscal year ending September 30, 2005 were $8,390,366[*]. (See "CERTAIN SIGNIFICANT ISSUES AFFECTING THE CITY" herein and "SAN ANTONIO WATER SYSTEM" in Appendix A attached hereto.)

Please refer to Table 18 for historical transfers from CPS and SAWS to the City's General Fund.

Economic Overview

The City's economic strength is enhanced by a favorable business climate, which includes a low cost of living, and a friendly and inviting attitude toward commerce and industry. San Antonio is home to a variety of businesses and industries from small companies to large corporations, including public and private sector entities. Among the industries that contribute significantly to San Antonio's economy are domestic and international trade, convention and tourism, medical and health care, government employment, agribusiness, manufacturing, financial, telecommunications, insurance, and mineral production. The City's cultural and geographic proximity to Mexico provides favorable conditions for international business relations therewith. In addition to the favorable economic climate, excellent weather conditions year round help to encourage and enhance the operation of many of San Antonio's most important industries.

Recently, San Antonio has assembled a string of economic highlights. Toyota announced in August that they are expanding the production of their new manufacturing facility in San Antonio by 50,000 Tundra trucks and making an additional $50 million investment. This brings the total number of trucks to be produced at the facility to 200,000 annually and their total investment to $850 million. In addition to the investment by Toyota, there are 21 Toyota suppliers that are locating in the Supplier Park. These suppliers will make an additional investment of $307 million and create 2,108 jobs with a payroll of about $55 million. In the financial services industry, Washington Mutual has decided to open a regional headquarters facility in San Antonio that could employ up to 4,200 people with an investment reaching $50 million. The National Security Agency is also expanding in San Antonio with an anticipated increase in employment of 1,500 accompanied by an additional investment of about $300 million. While some communities will have some big adjustments due to base closings recommended by the BRAC Commission, San Antonio will see a net increase of military employment of about 3,600 and an estimated increase in investment of over $2 billion. While many of the military missions are being relocated from Brooks City-Base, the private development is doing very well with the development of its retail corner, the expansion of DPT Laboratories, and the recent announcement by Southeast Baptist Hospital System of their plans to build a new hospital at Brooks. On the retail side, the Shops at La Cantera opened in September, 2005. It is estimated that the Shops at La Cantera will create 2,600 to 2,700 full time jobs. In that same area of San Antonio, Bass Pro Shops announced they are opening their largest store in Texas.

Employee Pension Plan and Benefits

The City's employees participate in a variety of defined pension plans. These plans and contributions made to such plans are further described in Note 8 in the City's Comprehensive Annual Financial Report, attached hereto as Appendix B for the fiscal year ended September 30, 2004. These plans are fully funded in accordance with State law.

Employees

The following table shows the City's total full-time, part-time and alternate employee positions authorized and number of positions filled. The number of filled positions shown reflects employees on the payroll for the fiscal

[*] Unaudited.

years indicated, and the number of employee authorized positions shown reflects positions adopted in the fiscal year budget.

	Fiscal Year Ended September 30:									
	2005		2004		2003		2002		2001	
Employees	**Filled [1, 2]**	**Authorized**	**Filled**	**Authorized**	**Filled**	**Authorized**	**Filled**	**Authorized**	**Filled**	**Authorized**
Police	1,925	2,037	1,984	2,033	1,916	2,025	1,865	2,013	1,940	1,978
Police Grant Funded	16	17	0	30	39	41	42	52	33	52
Total Police	1,941	2,054	1,984	2,063	1,955	2,066	1,907	2,065	1,973	2,030
Fire	1,436	1,439	1,097	1,441	1,443	1,442	1,401	1,448	1,417	1,436
Fire Grant Funded	0	0	335	0	0	0	0	0	0	0
Total Fire	1,436	1,439	1,432	1,441	1,443	1,442	1,401	1,448	1,417	1,436
Total Police & Fire	3,377	3,493	3,416	3,504	3,398	3,508	3,308	3,513	3,390	3,466
Civilian	7,354	9,375	6,749	9,580	6,482	9,680	6,613	9,819	6,323	7,823
Civilian Grant Funded	607	928	1,540	980	683	1,209	868	911	807	787
Total Civilian	7,961	10,303	8,289	10,560	7,165	10,889	7,481	10,730	7,130	8,610
Total	11,338	13,796	11,705	14,064	10,563	14,397	10,789	14,243	10,520	12,076

1 Fiscal year 2005 filled positions are as of September 15, 2005.

2 The adopted budget for fiscal year 2006 eliminated 68 vacant civilian positions. The eliminated positions included 48 vacant positions and 15 filled positions. Of the 15 filled positions, 13 employees were placed in other City positions, one employee resigned to accept another position outside the City, and one employee declined an offer for another City position.

Financial Accounting and Financial Policies

Government-wide Financial Statements

Under the new governmental financial reporting model instituted by GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments," a new government-wide financial statement is presented, taking the place of the general purpose combining statements presented in previous annual reports. The government-wide financial statements present financial information about the reporting government as a whole using the "economic resource" measurement focus and full accrual basis of accounting. Fiduciary activities, whose resources are not available to finance the City's governmental programs, are not included in these statements, including component units that are fiduciary in nature. The government-wide statements include a statement of net assets and a statement of activities.

The statement of net assets reflects both short-term and long-term assets and liabilities. Capital assets, infrastructure assets, and debts that are considered long-term will now be reported in the governmental activity column. Net assets, previously known as fund balances in prior annual reports, are now presented in three separate components: invested in capital assets, net of related debt; restricted; and unrestricted. Governmental activities, or those activities normally financed through taxes, intergovernmental revenue, and other non-exchange revenues, are presented in one column. Business-type activities, or those which are primarily financed by fees charged to outside parties for goods or services, are presented in the next column. Component units are reported in the aggregate, following the primary government's total column.

The statement of activities is presented in a net cost format. Expenses are presented in the far left column, followed by program revenues. General revenues are presented at the bottom of the statement. This new presentation allows users to determine which functions are self-supporting, and which ones rely on the tax base in order to complete their mission. The Governmental activities are divided by function; the business-type activities are entered as one line (for example, Aviation, Solid Waste, etc. are on separate lines). Component units are presented in the same format as the Business-type activities.

A reconciliation detailing the change in net assets between the government-wide financial statements and the fund financial statements is presented separately for governmental funds. Some reconciling entries will include those numbers needed to report on the full accrual basis in the government-wide financials from a modified accrual basis, as used in the fund statements. Another reconciling entry will be the elimination of internal service fund activity; the net income (loss) is allocated back to user departments in order to achieve a break-even result in the internal service funds. These allocations will only be reflected in the government-wide statements. Any residual amounts of the internal service funds will be reported in the governmental activity column.

The proprietary funds also have a reconciliation presented on the face of the proprietary fund's Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets. The only reconciling item will be the internal service fund allocation.

Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets and other debits, liabilities, fund equity and other credits, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The City has three types of Funds: Governmental Funds, Proprietary Funds, and Fiduciary Funds. The Fund Financial Statements provide more detailed information about the City's most significant funds, but not on the City as a whole. Major individual governmental funds and major enterprise funds are reported in separate columns in the Fund Financial Statements. Nonmajor funds are individually presented in the combining statements.

Governmental Funds

General Fund. The General Fund of the City accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds. Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts and major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds. Debt Service Funds are used to account for the accumulation of resources for and the payment of general long-term debt principal, interest, and related costs.

Capital Projects Funds. Capital Projects Funds are used to account for the financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds and Trust Funds).

Permanent Funds. This fund is a new governmental fund type established by GASB Statement No. 34. Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs – that is, for the benefit of the government or its citizenry.

Proprietary Funds

Enterprise Funds. The Enterprise Funds are used to account for operations (1) that are financed and operated in a manner similar to private business enterprises when the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis should be financed or recovered primarily through user charges; or (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Funds. Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governmental units, on a cost-reimbursement basis. The City's self-insurance programs, data processing programs, and other internal service programs are accounted for in this fund type.

Fiduciary Funds

Trust and Agency Funds. Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include Pension Trust, Retiree Health Care Trust, Private Purpose Trust Funds, and Agency Funds. Pension Trust and Retiree Health Care Trust Funds are accounted for in essentially the same manner as proprietary funds since capital maintenance is critical. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Debt Management

The City issues debt for the purpose of financing long-term infrastructure capital improvements. Some of these projects have multiple sources of funding which include debt financing. Infrastructure, as referred to by the City, means economic externalities essentially required to be provided by government to support a community's basic human needs, economic activity, safety, education, and quality of life. Types of debt issued by the City include ad valorem tax-supported bonds and certificates of obligation. Certificates of obligation are typically secured by a pledge of revenues and ad valorem taxes, do not require voter approval, and are issued for smaller programs that support the City's major infrastructure facilities and certain of its revenue-producing facilities. Revenue bonds are utilized to finance long-term capital improvements for proprietary enterprise and self-supporting operations. Currently, revenue bonds have provided the financing required for the City's International Airport facilities, the City's Parking System, the City's Municipal Drainage Utility System (Stormwater System), and the Henry B. Gonzalez Convention Center Expansion.

The long-term infrastructure financing process commences with the identification of major projects throughout the City to be financed with ad valorem tax-supported bonds or certificates of obligation. These City-wide projects typically involve public safety, street improvements, drainage, flood control, construction, and improvements to municipal facilities, as well as quality of life enhancements related to municipal parks. Major projects that are financed with ad valorem tax-supported bonds are presented to the electorate for approval. Upon voter approval, the City is authorized to issue ad valorem tax-supported bonds to finance the approved projects. Bond elections are held as needs of the community are ascertained. Revenue bonds do not require an election and are sold as needed for construction, expansion, and/or renovation of facilities in amounts that are in compliance with revenue bond covenants. The process for any debt issuance begins with the budget process and planned improvements to be made during the ensuing fiscal year.

Utilization of comprehensive financial analysis and computer modeling in the debt management plan incorporates numerous variables such as sensitivity to interest rates, changes in assessed values, annexations, current ad valorem tax collection rates, self-supporting debt, and fund balances. The analytical modeling and effective debt management has enabled the City to maximize efficiencies through refundings and debt structuring. Strict adherence to conservative financial management has allowed the City to meet its financing needs while at the same time maintaining its "AA+", "Aa2", and "AA+" general obligation bond rating by Standard & Poor's, A Division of the McGraw Hill Companies, Inc. ("S&P"), Moody's Investors Service, Inc. ("Moody's"), and Fitch Ratings ("Fitch"), respectively.

Debt Authorization

General Obligation Bonds. The City is authorized to issue bonds payable from ad valorem taxes pursuant to the City Charter, the general laws of the State, and ordinances adopted by the City Council. Such bonds must be authorized by the voters of the City at elections held within the City. The City currently has $48,325,000 ad valorem tax-supported debt previously approved by its voters on November 4, 2003 which the City anticipates will be sold in fiscal year 2006. Additionally, the City has authority, pursuant to an election held on January 26, 1980, to issue $16,660,000 in ad valorem tax-supported bonds, but it does not intend to issue these bonds and may not be legally able to do so. For the fiscal year ended September 30, 2005, the City had $670,565,124 general obligation bonds outstanding.

On March 31, 2005, the City issued $116,170,000 "City of San Antonio, Texas General Improvement and Refunding Bonds, Series 2005," (the "2005 Bonds"), which were delivered on April 27, 2005. The 2005 Bonds were issued to provide funds (1) to finance the construction of general improvements to the City, including (a) streets and pedestrian improvements; (b) drainage improvements; (c) parks and recreation improvements; (d) library improvements; and (e) public health and safety improvements; (2) to refund certain outstanding tax-exempt obligations and to effectuate a present value savings; and (3) to pay the costs of issuance. The sale of the 2005 Bonds represented the second installment of the $115,000,000 bonds approved at an election held in the City on November 4, 2003.

On May 19, 2005, the City effectuated a private placement of $2,900,000 Taxable Combination Tax and Revenue Certificates of Obligation, Series 2006 (the "Series 2006 CO's") with The Frost National Bank for the purpose of funding improvements to the Alamodome and to pay the costs of issuance. The Series 2006 CO's were delivered on May 26, 2005.

Certificates of Obligation. The City is authorized to issue certificates of obligation pursuant to the City Charter, applicable State laws, and ordinances adopted by the City Council. Certificates are issued for various purposes to include financing revenue producing capital improvements and for infrastructure support and development. For the fiscal year ended September 30, 2005, the City had $201,525,000 certificates of obligation outstanding, which comprises 23.11% of the total outstanding ad valorem tax-supported debt. The City anticipates the sale of Certificates of Obligation of $44,499,000 in fiscal year 2006.

On March 31, 2005, the City issued $10,535,000 "City of San Antonio, Texas Combination Tax and Revenue Certificates of Obligation, Series 2005," (the "2005 Certificates"), which were delivered on April 27, 2005. The 2005 Certificates will be used for the purpose of providing funds for the payment of contractual obligations to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) constructing public safety improvements, including renovating and improving existing fire stations, (2) constructing drainage improvements, sidewalk improvements, bridge improvements, street improvements and drainage incidental thereto, (3) constructing improvements and renovations to existing municipal facilities, (4) acquiring, constructing and renovating park facilities, (5) constructing improvements for flood control, dams, landscaping and amenities along the San Antonio River, (6) purchasing materials, supplies, machinery, land, and right-of-way for authorized needs and purposes relating to public safety, drainage, street, parks, and public works purposes, and (7) the payment of professional services related to the construction and financing of the aforementioned projects.

Revenue Bonds. The City is authorized to issue revenue bonds under the provisions of the City Charter, applicable State laws, and ordinances adopted by City Council. At fiscal year ending September 30, 2005, the City's outstanding revenue bonds (exclusive of revenue bonds issued for CPS and SAWS) were: Airport System Revenue Bonds in the aggregate principal amount of $174,870,000, Passenger Facility Charge and Subordinate Lien Airport System Revenue Bonds in the aggregate principal amount of $73,235,000; Parking System Revenue Bonds in the aggregate principal amount of $23,995,000; Municipal Drainage Utility System (Stormwater System) Bonds in the aggregate principal amount of $103,110,000; and Henry B. Gonzalez Convention Center Expansion Project Revenue Bonds aggregating to $207,912,412.

The airport, parking, drainage, and convention center revenue bonds are not secured by ad valorem taxes and are limited obligations of the City, payable solely from the gross revenues of the airport system, parking system, municipal drainage utility system, and hotel occupancy tax collections, respectively. The Passenger Facility Bonds are not secured by ad valorem taxes and are payable solely from the revenues generated by the City's collection of a passenger facility charge, which was approved by the Federal Aviation Administration and the City Council, with collection beginning on November 21, 2001.

On March 24, 2005, the City issued $61,060,000 "City of San Antonio, Texas, Municipal Drainage Utility System Revenue Bonds, Series 2005" (the "Stormwater Bonds"). The Stormwater Bonds were sold to finance the costs of making drainage improvements, including acquisition, construction, and repair of structures, equipment, and facilities for the City's Municipal Drainage Utility System, which were delivered on April 20, 2005.

On May 2, 2005, the City sold $38,385,000 "City of San Antonio, Texas Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement Bonds, Series 2005 (Alternative Minimum Tax Bonds)" (the "2005 PFC Bonds"), which were delivered on May 24, 2005. The 2005 PFC Bonds were issued to provide funds to finance the acquisition and construction of certain improvements to the San Antonio International Airport (the "Airport") qualifying for PFC "eligible airport-related projects" including Concourse B, Terminal Elevated Roadway, Central Plant Upgrade, Apron Replacement, and New Utilities. These improvements represent the further implementation of a portion of the Capital Improvement Plan (the "CIP"). The CIP addresses both terminal and airfield improvement needs. The CIP includes the removal of the Airport's existing Terminal 2, parts of which are over 50 years old, and the addition of two concourses with corresponding terminal space, public parking facilities, roadway improvements, and extension and improvement of two runways (along with supporting taxiways and aircraft apron).

Refunding Bonds. The City routinely reviews the possibility of refunding certain of its outstanding general obligation bonds and revenue bonds to effectuate interest cost savings and has frequently issued refunding bonds for such purpose.

Debt Limitations. The amount of ad valorem tax-supported debt that the City may incur is limited by City Charter and by the Constitution of the State. The City Charter establishes a limitation on the general obligation debt supported by ad valorem taxes to an amount not to exceed ten percent of the total assessed valuation.

The Constitution of the State of Texas provides that the ad valorem taxes levied by the City for debt service and maintenance and operation purposes shall not exceed $2.50 for each $100 of assessed valuation of taxable property. There is no limitation within the $2.50 rate for interest and sinking fund purposes; however, it is the policy of the Attorney General of the State of Texas to prohibit the issuance of debt by a city if such issuance produces debt service requirements that exceed the amount that can be paid from $1.50 tax rate calculated at 90% collections.

Long-Term Debt Planning

The following information on the Debt Management Plan was included in the City's Fiscal Year 2005-2006 Annual Adopted Operating Budget.

The City employs a comprehensive multi-year, long-term capital improvement planning program that is updated annually. Debt management is a major component of the financial planning model which incorporates projected financing needs for infrastructure development that is consistent with the City's growth while at the same time measuring and assessing the cost and timing of each debt issuance.

The assumptions utilized in the Debt Plan include: (i) assessed valuation growth at 0.5% per year for existing base values and 1.00% per year for new improvements; (ii) projected annexations, new major commercial developments, and expiring Tax Phase-In Agreements which are added to the assessed valuations in the year they are scheduled to be on the tax rolls; (iii) tax collections at 97.5%; (iv) tax freeze for elderly and disabled; (v) the adopted debt service tax rate which remains constant at 21.15 cents in fiscal years 2006 through 2013 and decreases annually from fiscal years 2014 through 2039; (vi) $115,000,000 General Improvement Bonds authorized by the voters in the November 4, 2003 election, of which $66,675,000 have been sold and $48,325,000 will be issued with the 2006 Bonds in fiscal year 2006, and (vii) the issuance of approximately $143,159,000 Certificates of Obligation, which are scheduled to be sold from fiscal year 2006 through 2011 for fire station improvements, Metropolitan Planning Organization streets and other street projects, drainage projects, parks and recreation projects, municipal facility improvements, environmental services improvements, economic development, library improvements, health, and San Antonio River improvements. Based on these assumptions and the projected maximum debt service tax rate of 21.15 cents, estimated bond authorizations in the Fall of 2007, 2011, and 2015 are approximately $210 million, $250 million and $250 million respectively.

New Money Issues

Ongoing capital improvement needs have required the City to sell certificates of obligation and general obligation bonds to fund capital improvements for various streets, drainage and flood control projects; acquisition, construction and improvements related to park facilities, public safety, municipal facilities, parking structures; environmental clean-up and land acquisition.

Debt Service Tax Rate

The combination of successful refundings and low interest rates for bonds and certificates of obligation sales has resulted in a decrease in the projected maximum debt service tax rate of $0.3049 per $100 valuation prior to 1992, 1993, 1996, 1998, 2001, 2002, 2003, 2004, 2005 and 2006 refundings to a projected maximum debt service tax rate of $0.2115 per $100 through fiscal year 2013.

The Budget Process

Fiscal Year 2006 Budget

The process for developing the fiscal year 2006 proposed budget involved the following overall steps:

Inventory of City Services. A first step in the development of the fiscal year 2006 Budget was to update the Inventory of City Services (the "Inventory") to facilitate decision-making during the budget process. The Inventory is a complete listing and description of all City services provided by each City department. There are 127 separate and discrete services identified and cataloged in the Inventory. Where possible, dollar amounts reflecting the costs and/or revenues associated with each service are also provided along with the associated staffing levels. The updated Inventory was presented to the City Council on June 29, 2005 during a Goal Setting Budget Work Session.

Five-Year Financial Forecast. The next step was presentation by staff of the Five-Year Financial Forecast (the "Forecast"). The Forecast is a financial and budgetary planning tool that provides a current and long-range assessment of financial conditions and costs for City service delivery plans including the identification of service delivery policy issues that will be encountered in the next five years and that will have a fiscal impact upon the City's program of services. Twenty-two service delivery policy issues were noted for their impact on infrastructure, public safety, balanced growth/neighborhoods, employee benefits and compensation, human development and other areas. Also included within the document is a set of budget strategy recommendations for the forecast period.

The Forecast also serves as a foundation for development of the proposed budget by projecting revenues and anticipated expenditures under a defined set of assumptions. The Forecast allows the City Council and staff to identify financial issues in sufficient time to develop a proactive strategy in order to address emerging strategic issues. Although the Forecast's focus is the City's General Fund, eight other major funds are also examined. The Forecast was presented to City Council on June 23, 2005. With respect to the General Fund, a positive ending balance was projected for fiscal year 2006.

The positive forecast for FY 2006 was largely attributed to a continued projection of strong revenue received within the General Fund. San Antonio's local economy is allowing the City to realize stronger receipts in sales tax projected through FY 2005 and into the forecast period. Continued development and stronger property values together with added CPS revenue have improved the overall revenue outlook for the City.

The fiscal year 2006 expenditure projections were based upon the continuation of existing services at the fiscal year 2005 level with adjustments for inflation, rising employee health insurance costs, and added expenditures for mandates. The Forecast also assumed added wage increase-related costs from the collective bargaining agreement between the City and the San Antonio Police Officer's Association. The five-year General Fund analysis projected a shortfall for fiscal year 2007 of $33.73 million. This was subsequently revised down to $24.80 million during the development and adoption of the fiscal year 2006 Budget.

City Council Goal Setting Work Session. The Goal Setting Work Session for the annual budget is a formal mechanism for the City Council as a body to provide City staff with budget policy direction. This year's work session was held on July 8, 2005 and utilized a ranking system that allowed Council members to identify those service delivery issues requiring the most change in the budget. A total of 158 services, within three unique categories, were subject to this process. The three categories are as follows:

- **The 2005 Updated Inventory of City Services**
  A listing of 127 discrete services and programs provided by the City.

- **Service Delivery Issues**
  A listing of 22 service delivery issues included in the Five Year Financial Forecast presented to City Council in June 2005.

- **New City Services (City Council Identified)**
  A listing of nine City Council identified issues.

Certain services from the Inventory of City Services category were selected by City Council and placed into one of three funding review options:

1. Increase Funding
2. Discontinue Funding
3. Change Funding

The services in the three funding review options along with services and issues in the Service Delivery Issues and the New City Services categories were evaluated using the criteria that:

a) Funding review should or should not occur,
b) That city services were a high, medium or low priority, and
c) That the funding review should take place in the fiscal year 2006 Budget or in future years' budgets.

As a result of this process, 19 services were identified as in need of funding review, high priority and for which review should occur as a part of the fiscal year 2006 Budget development process. These rankings were based on a consensus of opinion (seven or more City Council members) and included the following:

19 City Services Identified for Funding Review
(by seven or more City Council members)

- Street Maintenance – City Crews
- After School Challenge Program
- Contractual Street Maintenance
- Health Insurance Benefit Options/Costs
- Neighborhood Accessibility & Mobility Program (NAMP)
- Mayor & City Council
- Public Restrooms (Downtown & Parks)
- Community Policing (SAFFE)
- CPS Revenue Policy for Art Organizations
- Police & Fire Collective Bargaining
- Park Development
- Capital Programs
- Youth Development
- Animal Care
- EMS Service
- Implementation of Bond/HUD 108 CIP
- Additional COLA (2.11%) in FY 2006
- Branch Libraries
- General Fund Reserve for Revenue Loss

City staff followed the City Council's guidance from the Goal Setting Work Session as the basis for proposing targeted added investments in Key Council priority areas and recommending redirections and reductions in the Proposed Budget.

Public Input on Budget Priorities. Budget development also involved the receipt of public input on budget priorities through a "Public Budget Forum" conducted by the City Council on July 12, 2005, as well as two Public Hearings on the proposed budget held on August 23 and September 6, 2005. The Public Budget Forum resulted in the City Council being aware of issues important to citizens and community groups, while the Public Hearings allowed City Council to hear feedback from the citizens on the fiscal year 2006 Proposed Budget.

Proposed Budget Preparation. The proposed budget document also reflects updated program information, goals and objectives and performance measures for each department. The Office of Management & Budget worked with departments to evaluate existing and proposed performance indicators which would help track the City's progress in the efficient and effective delivery of services to citizens and achieve stated goals and objectives. The performance indicators for each department are arranged in the balanced scorecard format. The performance measures are balanced in that they are grouped to reflect precisely each of the four key organizational aspects of each department: Customer Service, Financial Performance, Internal Processes Efficiency, and Employee Learning & Growth. The performance measures are designed to demonstrate and validate the impact of proposed improvements to service delivery.

Additionally, departments met with the Office of Management & Budget and with members of the Management Team to review target budgets based on current service delivery requirements as well as to review preliminary fund schedules. Beginning in May 2005, the City Manager and the Management Team met with each department director to review the department's estimated commitments for fiscal year 2005, performance measures, funds schedules, capital and grant programs, organization-wide policy issues addressed through fiscal year 2006 base budgets, proposed revenue enhancements, resource redirections, and program reductions.

The City Manager's proposed budget for fiscal year 2006 represents staff's professional recommendation on a program of revenues and expenditures that provide the highest level of service possible within available resources. Overall, proposed expenditures have been closely examined to ensure the most efficient use of resources and to identify opportunities for improving the effectiveness of service delivery. The proposed budget puts forth a balanced budget that provides for targeted added investments in priority areas such as streets and infrastructure; public safety; General Fund reserves for revenue loss; parks expansion, development and beautification; economic development; and many other identified City Council priority areas. Additionally, it includes reduction and efficiency recommendations designed to provide continued City services with the least adverse impact on the City Council priorities.

Fiscal Year 2006 Adopted Budget. After receipt of the proposed budget, the City Council held nine work sessions to review the proposed service program details and discuss City Council budget amendments. The budget work sessions provided a forum for public discourse on significant policy issues as well as an opportunity to review departmental service plans highlighting proposed program enhancements, reductions, efficiencies, redirections, and revenue adjustments. After considering all the recommendations and receiving input from citizens at two public hearings, City Council amended the budget by balancing program revenues and expenditures to make the proposed service plan more closely track the Council priority objectives.

Annexation

Through annexation, the City has grown from its original size of 36 square miles to its current area, encompassing 448.41 square miles (full purpose annexations only) or 519 square miles (both full purpose and limited purpose annexations only) and having a fiscal year 2005 total market valuation of $56.833 billion.. The City expects to continue to utilize the practice of annexation as a future growth and development management tool, as well as an opportunity to enhance the City's fiscal position. Planned annexations by the City are currently under consideration.

At its November 20, 2002 meeting, the City Council annexed, effective December 31, 2002, five areas for inclusion within the City for full purposes, adding 19 square miles of land to the City's total area. At that same meeting, the City Council also annexed effective January 5, 2003, six areas for limited purposes. Effective August 1, 2004, City Council annexed an additional area for limited purposes south of the Medina River. In addition, effective June 20, 2005, City Council annexed the 4,345-acre Timberwood Park area for limited purposes. The areas annexed for limited purposes account for a total of 70 square miles of land within the City's corporate limits. Limited purpose annexation areas, although included in the total calculation of the City corporate limits, are excluded in the calculation of property values. (See "Limited Purpose Annexation" below).

Limited Purpose Annexation

The City annexed for limited purposes, effective January 5, 2003, six areas south of San Antonio. An additional area south of the Medina River was annexed August 1, 2004, and the Timberwood Park area, immediately east of

Camp Bullis, was annexed effective June 20, 2005. Limited purpose annexation allows the City to extend regulatory authority for the limited purposes of applying its planning, zoning, health, and safety ordinances to specified areas. The City may not impose a property tax in such areas until the property is annexed for full purposes, which generally occurs within three years after limited purpose annexation.

As a requirement of Section 43.123, Texas Local Government Code, as amended, the City published a planning study and regulatory plan regarding the proposed limited purpose annexation areas. The planning study addresses projected levels of development in the next ten years with and without annexation of such areas, issues regarding (and the public benefits of) annexation, economic and environmental impact of annexation, and proposed zoning for the specified areas. The regulatory plan outlines development regulations and the respective dates of future, full purpose annexation.

Annexation Plan

In 1999, the Texas Legislature passed Chapter 1167, Acts of the 76th Legislature, Regular Session, 1999 (the "Annexation Act"), changing the manner in which Texas municipalities can annex land. Under the Annexation Act (such requirement now codified at Section 43.052, Texas Government Code), municipalities must prepare an annexation plan specifically identifying annexations that may occur beginning on the third anniversary of the date such plan was adopted.

The City Council, at its September 19, 2002 meeting, adopted a three-year annexation plan for the City. At its December 12, 2002 meeting, City Council amended the plan identifying 13 areas for full purpose annexation, as required by Section 43.052 of the Texas Local Government Code, seven of these areas are scheduled to be annexed effective December 31, 2005, and the six south side limited purpose annexation areas are scheduled to be annexed for full purposes on January 5, 2006. City Council approved an additional amendment to its annexation plan on July 22, 2004, to include the limited purpose annexation south of the Medina River, which is scheduled for full purpose annexation on July 31, 2007.

Public Improvement District

Pursuant to the Public Improvement District Assessment Act, Chapter 372, Texas Local Government Code, as amended, on April 29, 1999, the City Council created a Public Improvement District ("PID") in the central business district. The purpose of the PID is to provide public improvement services to properties within the boundaries of the PID to include: (1) sidewalk sweeping and washing; (2) graffiti abatement; (3) landscaping/streetscaping services; (4) a marketing and promotional program; and (5) a public service representative program. On July 1, 1999, the City Council authorized the City to execute a contract with Centro San Antonio Management Corporation, a non-profit Texas corporation, to manage the PID programs. A 15-member Board of Directors of the PID meets at least quarterly to assure performance of Centro San Antonio Management Corporation. The supplemental services and improvements to be provided are detailed in the annual Service and Assessment Plan, which must be approved by the City Council. The fiscal year 2006 plan reflects a total budget of $1,550,000, based on an assessment rate of $0.12 per $100 valuation. In addition to assessment revenues from private property, which are expected to yield approximately $1,276,349 in fiscal year 2006, estimated additional funds are to be received from annual contributions from the City and City Public Service combined of $102,183, from VIA Metropolitan Transit of $60,000, from Bexar County of $30,000, and from the General Services Administration of $7,500. The PID will operate on these collected revenues and will not issue bonds. The PID is authorized for a term of five years through the end of fiscal year 2009.

GASB Statement No. 34 Implications for the City

Beginning with fiscal year ending 2002, the City implemented Governmental Accounting Standards Board Statement No. 34, "Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments," ("GASB Statement No. 34"). GASB Statement No. 34 requires the City to include a management's discussion and analysis that will give readers an objective and easily readable analysis of the government's financial performance for the year. In addition, capital assets, including infrastructure, are recorded and depreciated in the government-wide statement of net assets. GASB Statement No. 34 requires retroactive reporting of all major general infrastructure assets four years after the effective date of implementing GASB Statement No. 34. Although the City was only required, beginning with fiscal year 2002, to report general infrastructure prospectively, the City elected to early-implement the infrastructure reporting requirements. See “Appendix B – Selected portions of the City’s Comprehensive Annual Financial Report” for the year ended September 30, 2004 herein. The City anticipates that its audited financial statements for the period ending September 30, 2005 will be finalized on or about May 31, 2006.

Investments

Available investable funds of the City are invested as authorized and required by the Texas Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended (the “Act”), and in accordance with an Investment Policy approved by the City Council. The Act requires that the City establish an investment policy to ensure that City funds are invested only in accordance with State law. The City established a written investment policy adopted September 30, 2005. The City’s investments are managed by its Finance Director, who, in accordance with the Investment Policy, reports investment activity to the City Council.

Legal Investments

Under Texas law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than “A” or its equivalent; (6) (a) certificates of deposit and share certificates issued by a depository institution that has its main office or branch office in the State of Texas, that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, or are secured as to principal by obligations described in clauses (1) through (5) and clause (13) or in any other manner and amount provided by law for County deposits, and in addition (b) the County is authorized, subject to certain conditions, to invest in certificates of deposit with a depository institution that has its main office or branch office in the State of Texas and that participates in the Certificate of Deposit Account Registry Service® network (CDARS®) and as further provided by Texas law; (7) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), requires the securities being purchased by the City to be pledged to the City, held in the City’s name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer or a financial institution doing business in the State; (8) bankers’ acceptances with the remaining term of 270 days or less, which will be liquidated in full at maturity, is eligible for collateral for borrowing from a Federal Reserve Bank, if the short-term obligations of the accepting bank or its parent are rated at least “A-1” or “P-1” or the equivalent by at least one nationally recognized credit rating agency; (9) commercial paper with a stated maturity of 270 days or less and is rated at least “A-1” or “P-1” or the equivalent by either (i) two nationally recognized credit rating agencies or (ii) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (10) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average portfolio maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of $1 for each share, and provide the City with a prospectus and other information required by the Securities and Exchange Act of 1934 or the Investment Act of 1940; (11) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years; invests exclusively in obligations described in the preceding clauses; are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than “AAA” or its equivalent; and conforms to the requirements for eligible investment pools; (12) public funds investment pools that have an advisory board which includes participants in the pool and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than “AAA” or “AAA-m” or its equivalent or no lower than investment grade with a weighted average maturity no greater than 90 days; (13) bonds issued, assumed, or guaranteed by the State of Israel; and (14) guaranteed investment contracts secured by obligations of the United

States of America or its agencies and instrumentalities, other than prohibited obligations described in the next succeeding paragraph, with a defined termination date, and pledged to the City and deposited with the City or a third party selected and approved by the City.

Entities such as the City may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (5) and clause (13) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (5) and clause (13) above, clause (9) above and clauses (10) and (11) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to such investing entity or a third party designated such investing entity; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pool are rated no lower than "AAA" or "AAA-m" or an equivalent by at least one nationally recognized rating service. The City may also contract with an investment management firm registered under the Investment Advisors Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution. The City is specifically prohibited from investing in (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Investment Policies

Under Texas law, the City is required to invest its funds in accordance with written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; that includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pool fund groups, and the methods to monitor the market price of investments acquired with public funds and the requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type; (2) preservation and safety of principal; (3) liquidity; (4) marketability of each investment; (5) diversification of the portfolio; and (6) yield.

Under Texas law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly the investment officers of the City must submit to the City Council an investment report detailing (1) the investment position of the City; (2) that all investment officers jointly prepared and signed the report; (3) the beginning market value, any additions and changes to market value, the fully accrued interest, and the ending value of each pooled fund group; (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period; (5) the maturity date of each separately invested asset; (6) the account or fund or pooled fund group for which each individual investment was acquired; and (7) the compliance of the investment portfolio as it relates to (a) adopted investment strategy statements and (b) State law. No person may invest City funds without express written authority from the City Council.

Additional Provisions. Under Texas law the City is additionally required to: (1) annually review its adopted policies and strategies, (2) adopt an ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in said ordinance or resolution, (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (4) require the qualified representative of firms offering to engage in an investment transaction with the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the City and the business organization that are not authorized by the City's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the City and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (6) provide specific investment training for the Treasurer, Chief Financial Officer, or other investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (8) restrict the investment in mutual funds in the aggregate to no more than 80% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and further restrict the investment in non-money market mutual funds of any portion of bond proceeds, reserves and funds held for debt service and to no more than 15% of the entity's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements, and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

Current Investments

At September 30, 2005, investable City funds in the approximate amount of $812,373,520 currently are 92.21% invested in obligations of the United States, or its agencies and instrumentalities, and 6.74% invested in a money market mutual fund, with the weighted average maturity of the portfolio being less than one year. The remaining 1.05% of the City's portfolio includes a portion of the convention center debt service reserve fund of $8,499,915, which is invested in a fully collateralized repurchase agreement that is fully secured by obligations of the United States or its agencies and instrumentalities. The investments and maturity terms are consistent with State law, and the City's investment policy objectives, which are to preserve principal, limit risk, maintain diversification and liquidity, and to maximize interest earnings.

The market value of such investments (as determined by the City by reference to published quotations, dealer bids, and comparable information) was approximately 99.97% of their book value. No funds of the City are invested in derivative securities; i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

Certain Significant Issues Affecting the City

Water Supply

As previously mentioned, the primary source of water for the City is the Edwards Aquifer. Usage of water from the Edwards Aquifer, including usage by the City of San Antonio, has steadily decreased since the Edwards Aquifer Authority was established in 1993. The Edwards Aquifer is also the primary source of water for the agricultural economy in the two counties west of San Antonio and is the source of water for Comal and San Marcos Springs in New Braunfels and San Marcos, respectively, which depend upon springflow for their tourist-based economy. Edwards Aquifer water from these springs provides the habitat for species listed as endangered by the U.S. Fish & Wildlife Service under the federal Endangered Species Act and provides base flow for the Guadalupe River. Water levels in the Edwards Aquifer are affected by rainfall or lack thereof, water usage region-wide, and discharge from the aforementioned springs. One unique aspect of the Edwards Aquifer is its prolific rechargeability and the historical balance between recharge and discharge in the form of well withdrawals and spring discharges.

During the 1980s, increasing demand on the Edwards Aquifer threatened to exceed average historical recharge, generating concerns by the areas dependent upon springflow for water and the local economy. Also, the fluctuations in Edwards Aquifer levels threatened to jeopardize flow from Comal and San Marcos Springs. Since groundwater, including the Edwards Aquifer, is subject to the rule of capture in Texas, meaningful management could not be accomplished in the absence of new State legislation.

Regional planning efforts to address these issues were undertaken in the mid-1980s, resulting in recommendations for new State legislation for management of the Edwards Aquifer. Failure to adopt this legislation in the 1989 Texas Legislative Session resulted in the initiation of various lawsuits and regulatory efforts by regional interests dependent upon springflow to force limitations on overall usage from the Edwards Aquifer. In addition to the litigation discussed below, litigation was initiated in State District Court to have the Edwards Aquifer declared an underground river under State law, and therefore, owned by the State. This litigation was unsuccessful. In addition, efforts were undertaken to have the Texas Water Commission (now the Texas Commission on Environmental Quality) regulate the Edwards Aquifer. In April 1992, the Texas Water Commission adopted emergency rules declaring the Edwards Aquifer to be an underground stream, and therefore, State water subject to regulation by the State. After final adoption of permanent rules, litigation was initiated in State court challenging the Texas Water Commission's determination. The Texas Water Commission's permanent rules and the Commission's determination that the Edwards Aquifer was an underground stream, and, therefore, subject to regulation by the State, were declared invalid by the State courts.

The various litigations and regulatory efforts to manage withdrawals from the Edwards Aquifer resulted in passage of the Edwards Aquifer Authority Act in 1993 and its amendment in 1995 to allow its implementation. The Edwards Aquifer Authority began operation on July 1, 1996, and implementation of the State legislation will ultimately result in elimination of uncertainties concerning access to and use of Edwards Aquifer water by the City and all other Aquifer users.

The board of the Edwards Aquifer Authority has adopted rules for governing (1) critical period and demand management measures and (2) requirements for the issuance of permits for withdrawal of water from the Edwards Aquifer. Critical period management rules mandate staged reduction in water usage by limiting discretionary use with successive measures based upon Edwards Aquifer levels. The City currently has a similar critical period management ordinance, limiting discretionary water usage through primarily restricting outdoor water use and lawn watering. SAWS does not expect these rules to materially adversely affect revenues or operation or SAWS ability to supply water to its customers for primary needs. Further, as indicated elsewhere in this statement, SAWS has acquired through purchase or lease additional groundwater to ensure that its demands during critical period restrictions are met.

The Edwards Aquifer Authority has finalized the permitting process. The Edwards Aquifer Authority staff proposed permit(s) for 193,305 acre-feet for SAWS permanent Edwards Aquifer water right holdings. All final board action has been taken regarding these permits. In addition to the 193,305 acre-feet, SAWS holds an additional 27,642 acre-feet of Edwards leases, five to ten year terms, bringing SAWS total inventory to 220,947 acre-feet. SAWS pumped 159,051 acre-feet of Edwards Aquifer water during 2004.

Implementation of the legislation and management of the Edwards Aquifer will benefit the City. The legislation should provide a basis for resolving disputes concerning the application of the Endangered Species Act to the Edwards Aquifer and will prevent further diminution of usage by existing users, such as the City, caused by new users and additional demand. The legislation creates permitted rights and hence, a market in the limited resource and an incentive to implement conservation measures region-wide. The City believes that implementation of the legislation will also ultimately result in the elimination of litigation threats to existing water usage from the Edwards Aquifer.

The City Council appointed a citizen's committee to develop a water policy to address the SAWS' and City's long-range water needs. The committee made its report of the Citizens' Committee on water policy in January 1997. Citizens' Committee conclusions include increasing the yield of the Edwards Aquifer through additional recharge and other means, transporting water to San Antonio from other river basins and other groundwater sources, water reuse, and conservation. The work of this committee resulted in the 1998 Water Resources Plan. Ultimately, a multi-year funding mechanism (Water Supply Fee) was approved by City Council in October 2000. In order to comply with the provisions of the ordinance approving the 1998 Water Resources Plan, SAWS completed an update to the Water Resources Plan in August 2005 entitled "Water Resources 2005 Update."

Water Reuse Program

SAWS supplies reuse water to City Public Service (CPS), San Antonio's municipally owned electrical utility. The revenues derived from such agreement have been restricted in use to only reuse activities and are excluded from the calculation of Gross Revenues, and are not included in any transfers to the City's General Fund. Revenues derived from this agreement are approximately $2 million each year.

SAWS has constructed a direct reuse, or recycled water, system that provides non-potable water to various customers now using Edwards Aquifer water. The Reuse Program serves golf courses, grass farms, a university, a military base, a city landfill, a city baseball stadium, and others. Revenue from recycled water sales will be recorded as normal revenue of SAWS and will not have the restrictions of the reuse agreement with CPS.

Please refer to Table 18 herein for historical transfers from SAWS to the City's General Fund.

Electric and Gas Supply

The CPS electric system serves a territory consisting of substantially all of Bexar County and small portions of the adjacent counties of Comal, Guadalupe, Atascosa, Medina, Bandera, Wilson, and Kendall. Certification of this service area has been approved by the Public Utility Commission of Texas ("PUCT"). CPS also sells electricity at wholesale prices to the Floresville Electric Light & Power System, the City of Hondo, and the City of Castroville. These wholesale supply agreements have remaining terms ranging from one to twelve years until expiration, although some of the agreements provide for automatic extension or conditional early termination. CPS believes that it will have additional opportunities to enter into long-term wholesale electric power agreements in the future. The requirements under the existing and any new wholesale agreements would be firm energy obligations of CPS.

The City Council exercises original electric and gas rate regulatory jurisdiction over the CPS retail service areas, with appellate jurisdiction in the PUCT and Texas Railroad Commission for electric and gas rates, respectively, for areas outside the City. Pursuant to amendments made by the Texas Legislature in 1995 to the Texas Public Utility Regulatory Act ("PURA"), municipally-owned utilities, including CPS, became subject to the regulatory and rate jurisdiction of the PUCT relating to transmission of wholesale energy. The PURA amendments required the PUCT to establish open access transmission on the interconnected Texas grid for all utilities, co-generators, power marketers, independent power producers, and other transmission customers. (For further information, see "SAN ANTONIO ELECTRIC AND GAS SYSTEMS - Service Area and Rates" in Appendix A.)

The CPS electric system, like other municipal electric systems in the State, is adapting to changes in electric regulation brought about by the enactment of Senate Bill 7 ("SB 7") by the Texas Legislature in 1999. SB 7 provides for open competition in the provision of retail electric service in the State, which commenced on January 1, 2002. Municipal utilities, such as CPS, are not required to participate in the competitive retail market, although they may "opt-in" to retail electric competition. On April 26, 2001, the City Council passed a resolution stating that the City did not intend to opt-in to the deregulated electric market beginning January 1, 2002. SB 7 provides that "opt-in" decisions are to be made by the governing body or body vested with the power to manage and operate a municipal utility such as CPS. Given the relationship of the City Public Service Board of San Antonio, Texas ("CPS Board") and the City Council, any decision to opt-in to competition would be based upon the adoption of resolutions of both the CPS Board and the City Council. If the City and CPS choose to opt-in, other retail electric energy suppliers would be authorized to offer retail electric energy in the CPS service area and CPS would be authorized to offer retail electric energy in any other areas open to retail competition in the Electric Reliability Council of Texas ("ERCOT"). ERCOT is a synchronous interconnected electric system that operates wholly within Texas. (For further information, see "SAN ANTONIO ELECTRIC AND GAS SYSTEMS - Electric Utility Restructuring in Texas; Senate Bill 7" in Appendix A.)

Congress may also continue to consider legislation that would affect retail competition in the furnishing of electric energy. The ultimate effects of these and other developments in the restructuring of the electric industry, including possible state or national legislation, cannot be predicted. CPS, however, continues to implement organizational and systems changes to prepare for the possibility of participating in retail electric competition in Texas and will periodically advise the City regarding developments in the competitive market and the advisability of CPS' participation.

Please refer to Table 18 herein for historical transfers from CPS to the City's General Fund.

Transportation

Alamo Regional Mobility Authority. The Alamo Regional Mobility Authority (the "Alamo RMA") was created pursuant to Chapter 370, as amended, Texas Transportation Code, to provide the San Antonio area with the ability to construct, maintain and operate certain transportation projects and to establish a local governmental entity to make mobility decisions for this area.

The Alamo RMA is authorized to develop toll projects, issue revenue bonds to fund transportation projects, and utilize surplus revenues from local toll roads and state and federal assistance for transportation projects.

The Alamo RMA has been established to work in conjunction with the Texas Department of Transportation, the San Antonio-Bexar County Metropolitan Planning Organization, and other agencies to formulate a strategy to implement a toll network that will generate and direct revenue to other infrastructure projects that will improve the overall transportation system for the San Antonio metropolitan area.

LITIGATION

General Litigation and Claims

The City is a defendant in various lawsuits and is aware of pending claims arising in the ordinary course of its municipal and enterprise activities, certain of which seek substantial damages. This litigation includes lawsuits claiming damages that allege that the City caused personal injuries and wrongful deaths; class actions and promotional practices; various claims from contractors for additional amounts under construction contracts; and property tax assessments and various other liability claims. The amount of damages in most of the pending lawsuits are capped under the Texas Tort Claims Act; therefore, the potential liability is approximated at $20.58 million as of March 30, 2006, of which $19.2 million is included in the reserve recorded in the City's Insurance Reserve Fund. The status of such litigation ranges from early discovery stage to various levels of appeal of judgments both for and against the City. The City intends to defend vigorously against the lawsuits; including the pursuit of any and all appeals; however, no prediction can be made, as of the date hereof, with respect to the liability of the City for such claims or the final outcome of such lawsuits.

In the opinion of the City Attorney, it is improbable that the lawsuits now outstanding against the City could become final in a timely manner so as to have a material adverse financial impact upon the City.

Information regarding various lawsuits against the City is included at Footnote 11, entitled "Commitments and Contingencies: in Appendix B attached hereto, entitled "Selected portions of the City's Comprehensive Annual Financial Report" for the year ended September 30, 2004. The City provides the following information related to the lawsuits:

Charles and Tracy Pollock, individually and as next friend of Sarah Jane Pollock, a minor child v. City of San Antonio. This case alleges that benzene gas emitted from the West Avenue Landfill caused chromosomal damage to a fetus during the period of gestation, resulting in child's contraction of acute lymphoblastic leukemia. Although the jury at trial entered a judgment of more than $23 million against the City, the trial court immediately reduced this by $6 million. On appeal, the Fourth Court of Appeals subsequently sided with the City and reduced the judgment further by eliminating $10 million in exemplary damages. The remaining issue is whether personal injuries are recoverable under the theory of nuisance. The City believes they are not and that even if they are recoverable, damages are capped at $250,000 under the Texas Tort Claims Act. The City has appealed this matter to the Texas Supreme Court and is currently awaiting the decision.

Matthew Jackson et al. v. City of San Antonio. This is a Fair Labors Standards Act ("FLSA") lawsuit. It was brought as an opt-in class action, and 335 plaintiffs have opted in to the litigation. In general, the Plaintiffs claim they were required to report for duty 15 minutes prior to their shift, that they had to work beyond the end of their shifts, and that they were not compensated for the time at the overtime rate, in violation of the FLSA. They claim that they were (and are) entitled to be paid at 1.5 times their regular hourly rate for off-duty assignments on City property, and they make several lesser allegations based on the FLSA as well. Plaintiffs made, and the City rejected, a settlement demand in excess of $15 million. The City drafted and filed a motion for summary judgment which, if successful, will significantly reduce the City's potential exposure. However, the Court has not yet ruled on the motion, so damages remain unquantifiable. If the Plaintiffs ultimately succeed on a preponderance of their claims, damages will most likely be well in excess of $1 million, plus reasonable and necessary attorney's fees.

El Dorado Amusement Company, Inc. v. City of San Antonio. This case involves a claim that the City's rezoning action essentially was a takings of Plaintiff's property. Plaintiff owned property which was leased out for use as a night club. Pursuant to the rezoning, alcohol could no longer be served on the premises. The case was tried to the bench in April 2004 and a verdict was entered against the City in a total amount of approximately $1,000,000. The Fourth Court reversed in part and reduced base damages of $242,000. The City has filed a motion for rehearing with the Court and if that is unsuccessful, the matter will be appealed to the Texas Supreme Court.

Rogers, et al. v. City of San Antonio. This case was filed by City of San Antonio firefighters who are or were reservist members of the military. Plaintiffs allege they were denied various types of employment rights, benefits and pay because of their military status, in violation of the Uniformed Services Employment Rights Act. The City received adverse findings at the District Court level, but the City appealed to the Fifth Circuit Court of Appeals. The Fifth Circuit overturned the adverse findings, ruled in favor of the City on the majority of the issues, and remanded the matter back to the District court on the remaining issues. The opinion significantly lowers the potential exposure ($600,000) but it may still exceed $200,000. The case is currently in the discovery period and is set for trial June 19, 2006.

University of Kansas v. City of San Antonio. On September 30, 1999, the City's Community Initiatives Department received a grant from the United State Department of Labor ("DoL") for the purpose of administering a new "Welfare-to-Work" project. On October 14, 1999, Plaintiff entered into a contract whereby Plaintiff would provide expertise with development of the "Advocates Striving to Create Edgewood Neighborhood Development" ("ASCEND") Cooperative Program. The City agreed to make payments for an amount not to exceed $715,000. By letter dated July 30, 2001, the City notified the Plaintiff of its election to terminate the contract. Plaintiff sued for the amount of $387,325.50 allegedly due, plus any additional attorney's fees. In 2003, the DoL issued a finding that disallowed all costs sought by University of Kansas, to include the payment of $143,000 already made by the City. The City filed an appeal with respect to the $143,000 and settled the DoL claims for approximately $80,000. The City will seek to recoup those funds from Plaintiff in this litigation. It is expected that the matter will be set for trial in the next year.

Dorothy Burnley v. City of San Antonio. A City employee claimed a disability based on chronic allergies allegedly resulting from "sick building syndrome" and requested accommodation pursuant to the Americans with Disabilities Act. The City was unsuccessful in its motion for summary judgment and the case was tried to the jury. The jury awarded $165,000 in damages and the Court awarded approximately $31,000 in attorney's fees and costs. This matter is currently on appeal with the Fifth Circuit Court of Appeals.

Dolores Ytuarte v. City of San Antonio. On September 1, 2003, a San Antonio Police Department Officer was pursuing a suspect with the assistance of the helicopter unit. The suspect vehicle lost control, striking a parked vehicle that struck another vehicle that hit Plaintiff who was standing near by. Plaintiff, a 53-year-old female, severely injured her left leg. The damages in this case are capped by the Texas Tort Claims Act at $250,000.00. The Plaintiff made a demand of $250,000.00 during July, 2004. The City filed a Plea to the Jurisdiction which was denied. On appeal, the Fourth Court of Appeals upheld that denial. The matter is currently pending before the Texas Supreme Court.

Mark Hartman, Independent Executor of the Estate of Donna O'Bar, deceased and on behalf of her statutory beneficiaries; Mark Hartman, Personal Representative of the Estate of Richard Hartman, deceased, and on behalf of his statutory beneficiaries; Brenda Pivonka, Individually and as Administratrix of the Estate of Jennifer Allensworth, deceased, and Justin Hartman, Individually and as sole heir of the Estate of Mallori Hartman, deceased v. City of San Antonio. In 1998, the Plaintiffs' decedents, four (4) individuals, drove into high water on Highway 87 (also known as Rigsby Avenue) at the Salado Creek bridge in San Antonio. The City contends that the trial court has no jurisdiction. The main issue in this case is the emergency doctrine and its application to this fact situation. The denial of the City's Plea to the Jurisdiction, which was upheld by the Fourth Court of Appeals, is currently on appeal to the Texas Supreme Court.

Delfina Delgado v. City of San Antonio. This case involves an auto accident where the Plaintiff swerved to avoid hitting a Christmas tree in the road. The Plaintiff lost control of the vehicle and ended up in oncoming traffic. The Plaintiff spent several days in the Intensive Care Unit of the hospital, with many severe injuries. An independent witness has stated that he saw the Christmas tree fall out of a City garbage truck, but the City's documentation and policies indicate the City trucks would not have been out collecting the Christmas trees at the time the accident occurred. Mediation was unsuccessful and the case is set for trial on May 1, 2006. If a jury finds liability against the City, any damages would be capped by the Texas Tort Claims Act at $250,000.

Alfred Palacio et ux. Anna Palacio a/n/f for Stephen Anthony Barrera v. Martha Jeanette Palacio and Guillermina Rodarte d/b/a Rolando's Super Tacos #1, Maricela R. Bustos, City of San Antonio and Texas Department of Transportation. This case involves a pedestrian/bicyclist collision with a car. The Plaintiff is an adolescent boy with significant head injuries. There are multiple non-City of San Antonio defendants. The Plaintiffs have done nothing since filing the lawsuit. However, if the case becomes active, exposure could be in excess of $100,000 due to the severity of injuries.

Brooks Hardee, et al. v. City of San Antonio; Brooks Hardee et al v. City of San Antonio;, Reed Lehman Grain, Ltd. v. City of San Antonio; Reed Lehman Grain, Ltd. v. City of San Antonio; Reed Lehman Grain, Ltd. v. City of San Antonio; Reed Lehman Grain, Ltd. v. City of San Antonio; En Seguido, Ltd. v. City of San Antonio; John M. Schaefer, et al. v City of San Antonio; VWC Ltd. v. City of San Antonio, et al.; Lakeside Joint Venture, et al. v. City of San Antonio. These are similar lawsuits brought by the same developer/landowner under different entities. These lawsuits all raise complex issues of fact and law and collectively, challenge the City's authority to regulate land development, to include but not limited to challenging the City's vested rights determinations for the landowner's projects. There are approximately ten (10) related lawsuits. The City's legal team is confident that many of the allegations are without merit. Nevertheless, it is proceeding carefully and deliberately to defend its regulations and its power to protect the public. The City has coordinated its defense with the San Antonio Water System.

Donta Aubrety and Yolanda Williams v. City Of San Antonio and San Antonio Police Department Officers, Emmanuel Keith, Jr., T. Barrows, B. Serna, And Patrick J. Muriel, Individually and in their Official Capacities. This case involves claims of use of excessive force by police officers and paramedics. A 911 call was received for a woman, Plaintiff Williams, lying in the street, apparently unconscious. Paramedics arrived on the scene and began to render aid. Plaintiff Aubrety appeared on the scene and interfered with the paramedics. The paramedics called for police back up. When the police arrived, Plaintiff Aubrety became violent and resisted arrest. The police used escalating levels of force to restrain him. At the same time, Plaintiff Williams became violent with the paramedics and was restrained. Both Williams and Aubrety were arrested and charged with assault on public servants. Williams and Aubrety filed suit in federal court alleging that the paramedics and police officers violated their civil rights by use of excessive force. Plaintiffs have demanded damages in excess of $7 million. This case has just been filed.

Lorianne Marie Nash v. City of San Antonio, Officer B. Campbell, Officer T. Burrows, in their individual capacities, unknown City of San Antonio Police Officers, and City of San Antonio. Plaintiff was arrested on a driving while intoxicated ("DWI") charge. Plaintiff worked her hands out of the handcuffs and resisted when the officers attempted to re-cuff her. Plaintiff and the officers ended up on the asphalt during this struggle. Plaintiff alleges that she was being burned by the hot asphalt and that she suffered severe burns to her chest, abdomen and thighs, requiring skin grafts. Plaintiff filed suit pursuant to 42 U.S.C. Section 1983, alleging civil rights violations through use of excessive force. Exposure could be greater than $200,000. This case has been recently filed and discovery is just beginning.

Borden Park D/B/A Star Storage-Downtown v. City of San Antonio. As a residential benefit of their lease of office space at the Borden Park facility, some of its tenants had the right to use the signs to advertise their on-premise businesses. Plaintiff claims that the City Ordinance is in Violation of their First Amendment Rights. This case is a highly disputed case and a complicated trial regarding allegations of violation of Constitutional Rights (land use, vested rights, use of discretion) and numerous other Torts. On April 3, 2006, a Jury Trial commenced on this matter.

DeLoach et al. v. Skaggs and City of San Antonio. This case involves allegations of violations of civil rights. Plaintiff owns a wrecker services company providing property owners with the removal of vehicles improperly parked on their property. Plaintiff contends that the City has a custom, policy, or practice aimed at it with the intent of running Plaintiff out of business. Plaintiff alleges damages in an amount of $370,000. The City contends that the actions of its police officers were legitimate efforts to enforce the laws of the State and City. The case was tried to the bench in early April. The court is not expected to rule until May.

Rios v. City of San Antonio et al. This case involves a claim of use of excessive force. Plaintiff arrived at a police scene and attempted to interfere. After being told to leave, Plaintiff continued to interfere and the officers placed him under arrest. Plaintiff resisted. Plaintiff alleges that he was hog-tied and suffered a broken arm as a result of the officers' actions. This case has been brought in federal court and is currently set for trial on December 4, 2006.

Guardiola v. City of San Antonio et al. This case involves a claim of use of excessive force. The Plaintiff was stopped for speeding and became violent to the officer while the officer was writing her a ticket. Plaintiff was subsequently arrested and alleges that officer threw her on the ground. This case has been brought in federal court and is currently set for trial on December 4, 2006.

Contract Negotiations

Collective Bargaining Agreement negotiations between the City of San Antonio and the San Antonio Police Officers' Association. The San Antonio Police Officers' Association ("SAPOA") and the City of San Antonio City Council approved a collective bargaining agreement ("Agreement") which provides for a term through September 30, 2006, with an evergreen clause through September 30, 2016. The parties opened negotiations on January 13, 2006 and are currently engaged in ongoing negotiations

Collective Bargaining Agreement negotiations between the City of San Antonio and the International Association of Fire Fighters' Local 624. The International Association of Fire Fighters Local 624 ("Local 624") and the City of San Antonio City Council approved a collective bargaining agreement which provides for a term through September 30, 2005, with an evergreen clause through September 30, 2015. The City and Local 624 opened negotiations during their first meeting on Friday, October 7, 2005.

In December 2005, the Local 624 filed a declaratory judgment action against the City seeking an interpretation of Chapter 174 of the Texas Local Government Code. In particular, the Local 624 seeks a declaration from the Court as to who can be a member of the City's bargaining team. As a result, there have been no further negotiations between the parties.

TAX MATTERS

Tax Exemption

The delivery of the 2006 Forward Refunding Bonds is subject to the opinion of Fulbright & Jaworski L.L.P. and Escamilla & Poneck, Inc., Co-Bond Counsel to the City ("Co-Bond Counsel"), to the effect that interest on the 2006 Forward Refunding Bonds for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended, (the "Code"), to the date of initial delivery of the 2006 Forward Refunding Bonds of the owners thereof pursuant to section 103 of the Code and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations. The form of Co-Bond Counsel's anticipated opinion is included as Appendix C. The statutes, regulations, rulings, and court decisions on which such opinion will be based are subject to change.

Interest on all tax-exempt obligations, including the 2006 Forward Refunding Bonds, owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation, other than an S corporation, a qualified mutual fund, a real estate investment trust (REIT), a financial asset securitization investment trust (FASIT), or a real estate mortgage investment conduit (REMIC). A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code will be computed.

In rendering the foregoing opinions, Co-Bond Counsel will rely upon the report of the independent certified public accountants as disclosed herein under the caption "VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS" and upon the representations and certifications of the City made in a certificate of even date with the initial delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the 2006 Forward Refunding Bonds and will assume continuing compliance with the provisions of the Ordinance by the City subsequent to the issuance of the 2006 Forward Refunding Bonds. The Ordinance contains covenants by the City with respect to, among other matters, the use of the proceeds of the 2006 Forward Refunding Bonds and the facilities and equipment financed or refinanced therewith by persons other than state or local governmental units, the manner in which the proceeds of the 2006 Forward Refunding Bonds are to be invested, if required, the calculation and payment to the United States Treasury of any "arbitrage profits" and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the 2006 Forward Refunding Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the 2006 Forward Refunding Bonds.

Except as described above, Co-Bond Counsel will express no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the 2006 Forward Refunding Bonds. Co-Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the Issuer described above. No ruling has been sought from the Internal Revenue Service (the "IRS") with respect to the matters addressed in the opinion of Co-Bond Counsel, and Co-Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the 2006 Forward Refunding Bonds is commenced, under current procedures the IRS is likely to treat the City as the "taxpayer," and the owners of the 2006 Forward Refunding Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the 2006 Forward Refunding Bonds, the City may have different or conflicting interests from the owners of the 2006 Forward Refunding Bonds. Public awareness of any future audit of the 2006 Forward Refunding Bonds could adversely affect the value and liquidity of the 2006 Forward Refunding Bonds during the pendency of the audit, regardless of its ultimate outcome.

Ancillary Tax Consequences

Prospective purchasers of the 2006 Forward Refunding Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Tax Accounting Treatment of Discount Bonds

The initial public offering price to be paid for certain 2006 Forward Refunding Bonds may be less than the amount payable on such Bonds at maturity (the "Discount Bonds"). An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bonds. A portion of such original issue discount, allocable to the holding period of a Discount Bond by the initial purchaser, will be treated as interest for federal income tax purposes, excludable from gross income on the same terms and conditions as those for other interest on the 2006 Forward Refunding Bonds. Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during his taxable year.

However, such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation's alternative minimum tax imposed by section 55 of the Code, and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, S corporations with subchapter C earnings and profits, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

In the event of the sale or other taxable disposition of a Discount Bond prior to maturity, the amount realized by such owner in excess of the basis of such Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bond was held) is includable in gross income.

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination for federal income tax purposes of accrued interest upon disposition of Discount Bonds and with respect to the state and local tax consequences of owning Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on the Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

Tax Accounting Treatment of Premium Bonds

The initial public offering price to be paid for certain 2006 Forward Refunding Bonds may be greater than the stated redemption price on such Bonds at maturity (the "Premium Bonds"). An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and its stated redemption price at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium with respect to the Bonds which are Premium Bonds. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity.

Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

REGISTRATION AND QUALIFICATION OF 2006 FORWARD REFUNDING BONDS FOR SALE

The sale of the 2006 Forward Refunding Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the 2006 Forward Refunding Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the 2006 Forward Refunding Bonds been qualified under the securities acts of any other jurisdiction. The City assumes no responsibility for qualification of the 2006 Forward Refunding Bonds under the securities laws of any jurisdiction in which the 2006 Forward Refunding Bonds may be sold, assigned, pledged, hypothecated, or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the 2006 Forward Refunding Bonds must not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code, as amended,) provides that the 2006 Forward Refunding Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the 2006 Forward Refunding Bonds by municipalities or other political subdivisions or public agencies of the State, the Public Funds Investment Act, (Chapter 2256, Texas Government Code, as amended,) requires that the 2006 Forward Refunding Bonds be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency. (See "RATINGS" herein.) In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the 2006 Forward Refunding Bonds are legal investments for state banks, savings banks, trust companies with at least $1 million of capital, and savings and loan associations. The 2006 Forward Refunding Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

The City has made no investigation of other laws, rules, regulations, or investment criteria which might apply to such institutions or entities or which might limit the suitability of the 2006 Forward Refunding Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the 2006 Forward Refunding Bonds for such purposes. The City has made no review of laws in other states to determine whether the 2006 Forward Refunding Bonds are legal investments for various institutions in those states.

LEGAL MATTERS

The City will furnish the Underwriters with a complete transcript of proceedings incident to the authorization and issuance of the 2006 Forward Refunding Bonds, including the unqualified approving legal opinion of the Attorney General of the State to the effect that the 2006 Forward Refunding Bonds are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the legal opinion of Co-Bond Counsel to the effect that the 2006 Forward Refunding Bonds are valid and legally binding obligations of the City and, subject to the qualifications set forth herein under "TAX MATTERS," the interest on the 2006 Forward Refunding Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under existing statutes, published rulings, regulations, and court decisions. Co-Bond Counsel have been retained by and only represents the City. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the 2006 Forward Refunding Bonds, or which would affect the provision made for their payment or security, or in any manner questioning the validity of the 2006 Forward Refunding Bonds will also be furnished. In their capacity as Co-Bond Counsel, Fulbright & Jaworski L.L.P., San Antonio, Texas, and Escamilla & Poneck, Inc., San Antonio, Texas have reviewed the information appearing in this Updated Official Statement under the captions "THE 2006 FORWARD REFUNDING BONDS" (except for the information under the caption "Defaults and Remedies," "Payment Record," and "Book-Entry-Only System," as to which no opinion is expressed), "TAX MATTERS," "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE," "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," "LEGAL MATTERS," and "CONTINUING DISCLOSURE OF INFORMATION" (except under the caption "Compliance with Prior Undertakings," as to which no opinion is expressed) to determine whether such information fairly summarizes the material and documents referred to therein and is correct as to matters of law. Co-Bond Counsel have not, however, independently verified any of the factual information contained in this Updated Official Statement nor has it conducted an investigation of the affairs of the City for the purpose of passing upon the accuracy or completeness of this Updated Official Statement. No person is entitled to rely upon Co-Bond Counsel's limited participation as an assumption of responsibility for, or an expression of opinions of any kind with regard to the accuracy or completeness of any of the information contained herein. The legal fees to be paid Co-Bond Counsel for services rendered in connection with the issuance of the 2006 Forward Refunding Bonds are contingent on issuance and delivery of the 2006 Forward Refunding Bonds. The legal opinion of Co-Bond Counsel will accompany the obligations deposited with DTC or will be printed on the definitive obligations in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P., and for the City by the City Attorney.

The various legal opinions to be delivered concurrently with the delivery of the 2006 Forward Refunding Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

BOND INSURANCE

Financial Guaranty Insurance Company has supplied the following information for inclusion in this Updated Official Statement. No representation is made by the City, the Co-Financial Advisors or the Underwriters as to the accuracy or completeness of this information.

Payments Under the Policy

Concurrently with the issuance of the Bonds, Financial Guaranty Insurance Company ("Financial Guaranty") will issue its Municipal Bond New Issue Insurance Policy for the Bonds (the "Policy"). The Policy unconditionally guarantees the payment of that portion of the principal or accreted value (if applicable) of and interest on the Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the issuer of the Bonds (the "Issuer"). Financial Guaranty will make such payments to U.S. Bank Trust National Association, or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal, accreted value or interest (as applicable) is due or on the business day next following the day on which Financial Guaranty shall have received notice (in accordance with the terms of the Policy) from an owner of Bonds or the trustee or paying agent (if any) of the nonpayment of such amount by the Issuer. The Fiscal Agent will disburse such amount due on any Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal, accreted value or interest (as applicable) due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal, accreted value or interest (as applicable) shall be vested in Financial Guaranty. The term "nonpayment" in respect of a Bond includes any payment of principal, accreted value or interest (as applicable) made to an owner of a Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

Once issued, the Policy is non-cancellable by Financial Guaranty. The Policy covers failure to pay principal (or accreted value, if applicable) of the Bonds on their stated maturity dates and their mandatory sinking fund redemption dates, and not on any other date on which the Bonds may have been otherwise called for redemption, accelerated or advanced in maturity. The Policy also covers the failure to pay interest on the stated date for its payment. In the event that payment of the Bonds is accelerated, Financial Guaranty will only be obligated to pay principal (or accreted value, if applicable) and interest in the originally scheduled amounts on the originally scheduled payment dates. Upon such payment, Financial Guaranty will become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and will be fully subrogated to all of the Bondholder's rights thereunder.

The Policy does not insure any risk other than Nonpayment by the Issuer, as defined in the Policy. Specifically, the Policy does not cover: (i) payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity; (ii) payment of any redemption, prepayment or acceleration premium; or (iii) nonpayment of principal (or accreted value, if applicable) or interest caused by the insolvency or negligence or any other act or omission of the trustee or paying agent, if any.

As a condition of its commitment to insure Bonds, Financial Guaranty may be granted certain rights under the Bond documentation. The specific rights, if any, granted to Financial Guaranty in connection with its insurance of the Bonds may be set forth in the description of the principal legal documents appearing elsewhere in this Official Statement, and reference should be made thereto.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

In the event that Financial Guaranty is unable to fulfill its obligations under the Policy, the policy holder or bondholder is not protected by an insurance guaranty fund or other solvency protection arrangement.

Financial Guaranty Insurance Company

Financial Guaranty is a New York stock insurance corporation that writes financial guaranty insurance in respect of public finance and structured finance obligations and other financial obligations, including credit default swaps. Financial Guaranty is licensed to engage in the financial guaranty insurance business in all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the U.S. Virgin Islands and the United Kingdom.

Financial Guaranty is a direct, wholly owned subsidiary of FGIC Corporation, a Delaware corporation. At December 31, 2005, the principal owners of FGIC Corporation and the approximate percentage of its outstanding common stock owned by each were as follows: The PMI Group, Inc. – 42%; affiliates of the Blackstone Group L.P. – 23%; and affiliates of the Cypress Group L.L.C. – 23%. Neither FGIC Corporation nor any of its stockholders or affiliates is obligated to pay any debts of Financial Guaranty or any claims under any insurance policy, including the Policy, issued by Financial Guaranty.

Financial Guaranty is subject to the insurance laws and regulations of the State of New York, where Financial Guaranty is domiciled, including New York's comprehensive financial guaranty insurance law. That law, among other things, limits the business of each financial guaranty insurer to financial guaranty insurance (and related lines); requires that each financial guaranty insurer maintain a minimum surplus to policyholders; establishes limits on the aggregate net amount of exposure that may be retained in respect of a particular issuer or revenue source (known as single risk limits) and on the aggregate net amount of exposure that may be retained in respect of particular types of risk as compared to the policyholders' surplus (known as aggregate risk limits); and establishes contingency, loss and unearned premium reserve requirements. In addition, Financial Guaranty is also subject to the applicable insurance laws and regulations of all other jurisdictions in which it is licensed to transact insurance business. The insurance laws and regulations, as well as the level of supervisory authority that may be exercised by the various insurance regulators, vary by jurisdiction.

At December 31, 2005, Financial Guaranty had net admitted assets of approximately $3.504 billion, total liabilities of approximately $2.341 billion, and total capital and policyholders' surplus of approximately $1.163 billion, determined in accordance with statutory accounting practices ("SAP") prescribed or permitted by insurance regulatory authorities.

The audited consolidated financial statements of Financial Guaranty and subsidiaries, on the basis of U.S. generally accepted accounting principles ("GAAP"), as of December 31, 2005 and 2004, which have been filed with the Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs"), are hereby included by specific reference in this Official Statement. Any statement contained herein under the heading "BOND INSURANCE," or in any documents included by specific reference herein, shall be modified or superseded to the extent required by any statement in any document subsequently filed by Financial Guaranty with such NRMSIRs, and shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement. All financial statements of Financial Guaranty (if any) included in documents filed by Financial Guaranty with the NRMSIRs subsequent to the date of this Official Statement and prior to the termination of the offering of the Bonds shall be deemed to be included by specific reference into this Official Statement and to be a part hereof from the respective dates of filing of such documents.

The New York State Insurance Department recognizes only SAP for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the New York Insurance Law, and for determining whether its financial condition warrants the payment of a dividend to its stockholders. Although Financial Guaranty prepares both GAAP and SAP financial statements, no consideration is given by the New York State Insurance Department to financial statements prepared in accordance with GAAP in making such determinations. A discussion of the principal differences between SAP and GAAP is contained in the notes to Financial Guaranty's SAP financial statements.

Copies of Financial Guaranty's most recently published GAAP and SAP financial statements are available upon request to: Financial Guaranty Insurance Company, 125 Park Avenue, New York, NY 10017, Attention: Corporate Communications Department. Financial Guaranty's telephone number is (212) 312-3000.

Financial Guaranty's Credit Ratings

The financial strength of Financial Guaranty is rated "AAA" by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc., "Aaa" by Moody's Investors Service, and "AAA" by Fitch Ratings. Each rating of Financial Guaranty should be evaluated independently. The ratings reflect the respective ratings agencies' current assessments of the insurance financial strength of Financial Guaranty. Any further explanation of any rating may be obtained only from the applicable rating agency. These ratings are not recommendations to buy, sell or hold the Bonds, and are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds. Financial Guaranty does not guarantee the market price or investment value of the Bonds nor does it guarantee that the ratings on the Bonds will not be revised or withdrawn.

Neither Financial Guaranty nor any of its affiliates accepts any responsibility for the accuracy or completeness of the Official Statement or any information or disclosure that is provided to potential purchasers of the Bonds, or omitted from such disclosure, other than with respect to the accuracy of information with respect to Financial Guaranty or the Policy under the heading "BOND INSURANCE." In addition, Financial Guaranty makes no representation regarding the Bonds or the advisability of investing in the Bonds.

RATINGS

Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services, a Division of the McGraw-Hill Corporation ("S&P"), and Fitch Ratings, Inc. ("Fitch") have assigned their municipal bond ratings of "Aaa," "AAA," and "AAA," respectively, to the 2006 Forward Refunding Bonds, as a result of a municipal bond insurance policy issued by Financial Guaranty Insurance Corporation. See "BOND INSURANCE" herein. The City's unenhanced general obligation debt is rated "Aa2," "AA+," and "AA+" by Moody's, S & P, and Fitch. An explanation of the significance of such ratings may be obtained from Moody's, S&P, or Fitch. The rating of the 2006 Forward Refunding Bonds by Moody's, S&P, and Fitch reflects only the views of said companies at the time the ratings are given, and the City makes no representations as to the appropriateness of the ratings. There is no assurance that the ratings will continue for any given period of time, or that the ratings will not be revised downward or withdrawn entirely by Moody's, S&P, and Fitch if, in the judgment of said companies, circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect on the market price of the 2006 Forward Refunding Bonds.

VERIFICATION OF ARITHMETICAL AND MATHEMATICAL CALCULATIONS

The issuance of the 2006 Forward Refunding Bonds will be subject to delivery by Grant Thornton LLP, Minneapolis, Minnesota, certified public accounts (the "Accountants"), of a report of the mathematical accuracy of certain computations. The Accountants will verify from the information provided to them the mathematical accuracy as of the Settlement Date of the 2006 Forward Refunding Bonds of (i) the computations contained in the provided schedules to determine that the anticipated receipts from the cash deposits and any Federal Securities listed in the schedules provided by the Co-Financial Advisors (defined herein), to be held in the Escrow Fund, will be sufficient to pay, when due, the principal and interest requirements of the Refunded Obligations, and (ii) the computations of yield on the 2006 Forward Refunding Bonds contained in the provided schedules used by Co-Bond Counsel in its determination that the interest on the 2006 Forward Refunding Bonds is excludable from the gross income of the holders thereof. The Accountants will express no opinion on the assumptions provided to them, nor as to the exemption from taxation of the interest on the 2006 Forward Refunding Bonds. Such verification of accuracy of such mathematical computation will be based upon information and assumptions supplied by the City and the Co-Financial Advisors, and such verification, information and assumptions will be relied on by Co-Bond Counsel in rendering its opinion described herein.

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the holders and Beneficial Owners of the 2006 Forward Refunding Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the 2006 Forward Refunding Bonds. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

Annual Reports

Under Texas law, including, but not limited to, Chapter 103, Texas Local Government Code, as amended, the City must keep its fiscal records in accordance with generally accepted accounting principles, must have its financial accounts and records audited by a certified public accountant and must file each audit report with the City Clerk. The City's fiscal records and audit reports are available for public inspection during the regular business hours of the City Clerk. Additionally, upon the filing of these financial statements and the annual audit, these documents are subject to the Texas Open Records Act, Texas Government Code, Chapter 552, as amended. Thereafter, any person may obtain copies of these documents upon submission of a written request to the City Clerk, City of San Antonio, Texas, 100 Military Plaza, San Antonio, Texas 78205, and upon paying the reasonable copying, handling, and delivery charges for providing this information.

The City will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Updated Official Statement indicated as Tables 1-14 and 16-19, and in the CAFR. The City will update and provide this information within six months after the end of each fiscal year. The City will provide the updated information to each nationally recognized municipal securities information repository ("NRMSIR") and to any State Information Depository ("SID").

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the Rule. The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited information within the required time and audited financial statements when and if the audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in the CAFR or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation.

The City's fiscal year ends September 30. Accordingly, it must provide updated information by March 31 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify each NRMSIR and any SID of the change.

Material Event Notices

The City will also provide timely notices of certain events to certain information vendors. The City will provide notice of any of the following events with respect to the 2006 Forward Refunding Bonds, if such event is material to a decision to purchase or sell Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the status of the 2006 Forward Refunding Bonds; (7) modification to rights of holders of the 2006 Forward Refunding Bonds; (8) bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the 2006 Forward Refunding Bonds; and (11) rating changes. (Neither the 2006 Forward Refunding Bonds nor the Ordinance make any provision for redemption, debt service reserves, or liquidity enhancement.) In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports." The City will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

Availability of Information from NRMSIRs and SID

The City has agreed to provide the foregoing information only to NRMSIRs and any SID. The information will be available to holders of the 2006 Forward Refunding Bonds only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

The Municipal Advisory Council of Texas (the "MAC") has been designated by the State of Texas and approved by the SEC staff as a qualified SID. The address of the MAC is 600 West 8th Street, Post Office Box 2177, Austin, Texas, 78768-2177, and its telephone number is (512) 476-6947. The MAC has also received SEC approval to operate, and has begun to operate, a "central post office" for information filings made by municipal issuers, such as the City. A municipal issuer may submit its information filings with the central post office, which then transmits such information to the NRMSIRs and the appropriate SID for filing. This central post office can be accessed and utilized at www.DisclosureUSA.com ("DisclosureUSA"). The City may utilize DisclosureUSA for the filing of information relating to the 2006 Forward Refunding Bonds.

Limitations and Amendments

The City has agreed to update information and to provide notices of material events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of the 2006 Forward Refunding Bonds may seek a writ of mandamus to compel the City to comply with its agreement.

This continuing disclosure agreement may be amended by the City from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell the 2006 Forward Refunding Bonds in the primary offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering, as well as such changed circumstances; and (2) either (i) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provision of the Ordinance that authorize such an amendment) of the outstanding Bonds consent to such amendment or (ii) a person that is unaffiliated with the City (such as nationally recognized Co-Bond Counsel) determined that such amendment will not materially impair the interest of the registered owners and Beneficial Owners of the 2006

Forward Refunding Bonds. The City may also repeal or amend the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling bonds in the primary offering of the 2006 Forward Refunding Bonds.

Compliance with Prior Undertakings

During the past five years, the City has complied in all material respects with all of its previous continuing disclosure agreements in accordance with the Rule. The City made its annual filing on March 31, 2006, which included its unaudited financial statements as permitted by the Rule and the City anticipates that its audited financial statements for the period ending September 30, 2005 will be finalized on or about May 31, 2006.

FORWARD-LOOKING STATEMENTS

The statements contained in this Updated Official Statement, and in any other information provided by the City, that are not purely historical, are forward-looking statements, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Updated Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements. The City's actual results could differ materially from those discussed in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherent subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions of future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Updated Official Statement will prove to be accurate.

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the 2006 Forward Refunding Bonds from the City on the Settlement Date at a purchase price of $35,134,069.47. The Underwriters' obligations are subject to certain conditions precedent, and they will be obligated to purchase all of the 2006 Forward Refunding Bonds if any 2006 Forward Refunding Bonds are purchased. The 2006 Forward Refunding Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed from time to time by the Underwriters.

The Underwriters have reviewed the information in the Updated Official Statement in accordance with their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

CO-FINANCIAL ADVISORS

Coastal Securities and Estrada Hinojosa & Company, Inc. (the "Co-Financial Advisors") are employed by the City in connection with the issuance of the 2006 Forward Refunding Bonds and, in such capacity, have assisted the City in the preparation of certain documents related thereto. The Co-Financial Advisors fee for service rendered with respect to the sale of the 2006 Forward Refunding Bonds is contingent upon the issuance and delivery of the 2006 Forward Refunding Bonds.

The Co-Financial Advisors have not independently verified any of the information set forth herein. The information contained in this Updated Official Statement has been obtained primarily from the City's records and from other sources which are believed to be reliable, including financial records of the City and other entities which may be subject to interpretation. No guarantee is made as to the accuracy or completeness of any such information. No person, therefore, is entitled to rely upon the participation of the Co-Financial Advisors as an implicit or explicit expression of opinions as to the completeness and accuracy of the information contained in this Updated Official Statement.

The Co-Financial Advisors have reviewed the information in the Updated Official Statement in accordance with their responsibilities to the City and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Co-Financial Advisors do not guarantee the accuracy or completeness of such information.

CERTIFICATION OF THE UPDATED OFFICIAL STATEMENT

At the time of payment for and delivery of the 2006 Forward Refunding Bonds, the Underwriters will be furnished a certificate, executed by proper officers of the City, acting in their official capacity, to the effect that to the best of their knowledge and belief (1) the descriptions and statements of or pertaining to the City contained in this Updated Official Statement, and any addenda, supplement, or amendment thereto, for the 2006 Forward Refunding Bonds, on the date of sale of the 2006 Forward Refunding Bonds and on the date of the initial delivery of the 2006 Forward Refunding Bonds, were and are true and correct in all material respects; (2) insofar as the City and its affairs, including its financial affairs, are concerned, such Updated Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (3) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the City, and their activities contained in such Updated Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect; and (4) there has been no material adverse change in the financial condition of the City, since the date of the last financial statements of the City appearing in the Updated Official Statement.

AUTHORIZATION OF THE UPDATED OFFICIAL STATEMENT

This Updated Official Statement has been approved as to form and content and the use thereof in the offering of the 2006 Forward Refunding Bonds was authorized, ratified, and approved by the City Council on the date of sale, and the Underwriters will be furnished, upon request, at the time of payment for and the delivery of the 2006 Forward Refunding Bonds, a certified copy of such approval, duly executed by the proper officials of the City.

This Updated Official Statement has been approved by the City Council for distribution in accordance with the provisions of the Rule.

/s/ Phil Hardberger
Mayor, City of San Antonio, Texas

ATTEST:

/s/ Leticia M. Vacek
City Clerk, City of San Antonio, Texas

SCHEDULE I
TABLE OF REFUNDED OBLIGATIONS
CITY OF SAN ANTONIO, TEXAS

General Improvement and Refunding Bonds, Series 1996A

Maturity Date	Interest Rate	Par Amount	Call Date	Call Price
08/01/2009	5.00%	$ 2,795,000 [1]	08/01/2006	100.00
08/01/2010	5.20%	2,955,000 [1]	08/01/2006	100.00
08/01/2011	5.00%	5,745,000 [1]	08/01/2006	100.00
08/01/2012	5.40%	6,070,000 [1]	08/01/2006	100.00
08/01/2013	5.45%	6,435,000 [1]	08/01/2006	100.00
08/01/2014	5.40%	6,860,000 [1]	08/01/2006	100.00
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08/01/2016	5.00%	3,540,000 [1, 2]	08/01/2006	100.00
		$34,400,000		

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[1] Partial amounts that remain outstanding.
[2] Includes partial mandatory sinking fund redemption amount due 08/01/2015.

APPENDIX A

CITY OF SAN ANTONIO – GENERAL DEMOGRAPHIC AND ECONOMIC INFORMATION

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APPENDIX A

CITY OF SAN ANTONIO
GENERAL DEMOGRAPHIC AND ECONOMIC INFORMATION

This Appendix contains a brief discussion of certain economic and demographic characteristics of the City of San Antonio, Texas (the "City" or "San Antonio") and of the metropolitan area in which the City is located. Although the information in this Appendix has been provided by sources believed to be reliable, no investigation has been made by the City to verify the accuracy or completeness of such information.

Population and Location

The Census 2000, prepared by the U.S. Census Bureau, found a City population of 1,144,646. The City's Department of Planning estimated the City's population at 1,306,900 for the calendar year ending December 31, 2005. The U.S. Census Bureau ranks the City as the second largest in the State of Texas and the eighth largest in the United States.

The City is the county seat of Bexar County, which has a population of 1,392,931 according to the Census 2000. The City's Department of Planning estimated Bexar County's population at 1,584,800 for the calendar year ending December 31, 2005. The City is located in south central Texas approximately 75 miles south of the state capital in Austin, 140 miles northwest of the Gulf of Mexico, and approximately 150 miles from the U.S./Mexico border cities of Del Rio, Eagle Pass, and Laredo, respectively.

The following table provides, as of April 1 for the years shown, the population of the City, Bexar County, and the San Antonio Metropolitan Statistical Area ("MSA")[1], which includes Bexar, Comal, Wilson, and Guadalupe Counties:

Year	City of San Antonio	Bexar County	San Antonio MSA
1920	161,399	202,096	238,639
1930	231,542	292,533	333,442
1940	253,854	338,176	376,093
1950	408,442	500,460	542,209
1960	587,718	687,151	736,066
1970	654,153	860,460	888,179
1980	786,023	988,971	1,088,881
1990	935,933	1,185,394	1,324,749
2000	1,144,646	1,392,931	1,711,703[1]

[1] As of June 2003, the United States Office of Management and Budget redefined the San Antonio MSA by increasing the number of counties from four to eight: Atascosa, Bandera, Kendall, and Medina Counties were added to its mainstays of Bexar, Comal, Guadalupe, and Wilson Counties. (The 2000 figure reflects the new 2003 redefined 8-county area.)
Sources: U.S. Census Bureau; City of San Antonio, Department of Planning.

Area and Topography

The area of the City has increased through numerous annexations, and now contains approximately 521 square miles. The topography of San Antonio is generally hilly with heavy black to thin limestone soils. There are numerous streams fed with underground spring water. The average elevation is 788 feet above mean sea level.

Annexation

Through annexation, the City has grown from its original size of 36 square miles to its current area, encompassing 451 square miles (full purpose annexations only) or 521 square miles (both full purpose and limited purpose annexations), and having a fiscal year 2006 total market valuation of $56.833 billion. The City expects to continue to utilize the practice of annexation as a future growth and development management tool, as well as an opportunity to enhance the City's fiscal position. Planned annexations by the City are currently under consideration.

At its November 20, 2002 meeting, the City Council annexed, effective December 31, 2002, five areas for inclusion within the City for full purposes, adding 19 square miles of land to the City's total area. At that same meeting, the City Council also annexed, effective January 5, 2003 six areas for limited purposes. Effective August 1, 2004, City Council annexed an additional area for limited purposes south of the Medina River. In addition, effective June 20, 2005, City Council annexed the 4,345-acre Timberwood Park area for limited purposes. The areas annexed for limited purposes account for a total of 70 square miles of land within the City's corporate limits. Limited purpose annexation areas, although included in the total calculation of the City corporate limits, are excluded in the calculation of property values. (See "Limited Purpose Annexation" below).

Effective December 2005, City Council annexed the following areas for full purpose annexation: QVC San Antonio, ten acres, effective December 30, 2005; Hunter's Pond, 98 acres, effective December 11, 2005; Helotes Park Terrace Park at French Creek, 146 acres, effective December 31, 2005; and Kyle Seale/Loop 1604, 1,312 acres, effective December 31, 2005. These annexations added 1,576 acres or 2.45 square miles to the City.

Limited Purpose Annexation

The City annexed for limited purposes, effective January 5, 2003, six areas south of San Antonio. An additional area south of the Medina River was annexed August 1, 2004 and the Timberwood Park area, immediately east of Camp Bullis, was annexed effective June 20, 2005. Limited purpose annexation allows the City to extend regulatory authority for the limited purposes of applying its planning, zoning, health, and safety ordinances to specified areas. The City may not impose a property tax in such areas until the property is annexed for full purposes, which generally occurs within three years after limited purpose annexation.

As a requirement of Section 43.123, Texas Local Government Code, as amended, the City published a planning study and regulatory plan regarding the proposed limited purpose annexation areas. The planning study addresses projected levels of development in the next ten years with and without annexation of such areas, issues regarding (and the public benefits of) annexation, economic and environmental impact of annexation, and proposed zoning for the specified areas. The regulatory plan outlines development regulations and the respective dates of future, full purpose annexation.

Annexation Plan

In 1999, the Texas Legislature passed Chapter 1167, Acts of the 76th Legislature, Regular Session, 1999 (the "Annexation Act"), changing the manner in which Texas municipalities can annex land. Under the Annexation Act (such requirement now codified at Section 43.052, Texas Local Government Code), municipalities must prepare an annexation plan specifically identifying annexations that may occur beginning on the third anniversary of the date such plan was adopted.

The City Council, at its September 19, 2002 meeting, adopted a three-year annexation plan for the City. At its December 12, 2002 meeting, City Council amended the plan identifying 13 areas for full purpose annexation, as required by Section 43.052 of the Texas Local Government Code, seven of these areas were annexed effective December 31, 2005, and the six south side limited purpose annexation areas were annexed for full purposes on January 5, 2006. City Council approved an additional amendment to its annexation plan on July 22, 2004, to include the limited purpose annexation south of the Medina River, which is scheduled for full purpose annexation on July 31, 2007.

Form of Government and Administration

The City is a home rule municipality that operates pursuant to the Charter of the City of San Antonio City Charter (the "City Charter"), which was adopted on October 2, 1951 and became effective on January 1, 1952. The City Charter provides for a council-manager form of government. Pursuant to its provisions and subject only to the limitations imposed by the Texas Constitution and the City Charter, all powers of the City are vested in an elective Council (the "City Council") which enacts legislation, adopts budgets, and determines policies. The City Council is comprised of eleven (11) members, with ten (10) members elected from single-member districts, and the Mayor elected at-large. Each member of the City Council serves two (2) year terms, and each member is limited to a maximum of two (2) full terms. The office of the Mayor is considered a separate office. The terms of all members of the City Council currently sitting in office expire on May 31, 2007 or as soon thereafter as a successor is appointed and qualified.

The City Council also appoints a City Manager who executes the laws and administers the government of the City, and serves as the City's chief administrative officer. The City Manager serves at the pleasure of City Council.

City Charter

Since its adoption, the City Charter has been amended on five (5) separate occasions, November 1974, January 1977, May 1991, May 1997, and November 2001. Significant amendments to the City Charter include the amendment passed in May 1991, which limited the service by the Mayor and members of the City Council members to two full terms, each of which is two years in duration. Two (2) separate City Charter review committees sitting in the early and mid-1990's and charged with conducting a comprehensive review of the City Charter resulted in the passage of five propositions, each containing numerous amendments to the City Charter in May 1997. The most recent amendments to the City Charter occurred in 2001 and included, among others, provisions creating the position of an independent City Internal Auditor and granting the City Manager the power to appoint and remove the City Attorney upon the City Council's confirmation and advice, respectively.

Services

The full range of services the City provides to its constituents includes ongoing programs to provide health, welfare, art, cultural, and recreational services; maintenance and construction of streets, highways, drainage, and sanitation systems; public safety through police and fire protection; and urban redevelopment and housing. The City also considers the promotion of convention and tourism and participation in economic development programs high priorities. The funding sources from which these services are provided include ad valorem, sales, and hotel/motel tax receipts, federal and state grants, user fees, bond proceeds, tax increment financing, and other sources.

In addition to the above described general government services, the City provides services financed by user fees set at levels adequate to provide coverage for operating expenses and the payment of outstanding debt. These services include airport, parking, storm water, and environmental services.

Electric and gas services to the San Antonio area are provided by City Public Service Board of San Antonio, Texas ("CPS"), an electric and gas utility owned by the City that maintains and operates certain utilities infrastructure. This infrastructure includes a 19 generating unit electric system and the gas system that serves the San Antonio area. CPS operations and debt service requirements for capital improvements are paid from revenues received from charges to its customers. CPS is obligated to transfer a portion of its revenues to the City. CPS revenue transfers to the City for the City's fiscal year ending September 30, 2005 were $213,440,218*.

Water, wastewater, recycled water, steam, and chilled water services are provided by the San Antonio Water System ("SAWS"), another City-owned and operated utility. In addition to these services, SAWS contracted with the City to provide certain storm water services thereto and it manages and develops water resources in and around the San Antonio region. SAWS is in its 13th year as a separate, consolidated entity that addresses the City's

*Unaudited.

water-related issues in a coordinated and unified manner. SAWS operations and debt service requirements for capital improvements are paid from revenues received from charges to its customers. SAWS is obligated to transfer a portion of its revenues to the City. SAWS revenue transfers to the City for the City's fiscal year ended September 30, 2005 were $8,390,366*.

Economic Factors

The City supports a favorable business environment and economic diversification which is represented by various industries, including domestic and international trade, convention and tourism, medicine and health care, government employment, agribusiness, manufacturing, financial business, telecommunications, telemarketing, insurance, and mineral production. Support for these economic activities is demonstrated by the City's commitment to its on-going infrastructure improvements and development and its dedicated work force. Total employment in the San Antonio MSA for February 2006 was 862,047, which is 18,315 or 2.17% more jobs than that of February 2005 total of 843,732. Services, trade, and government represent the largest employment sectors in the San Antonio MSA. Finance (including insurance), healthcare and bioscience, tourism, and the military represent the largest industries in San Antonio.

Finance Industry

According to a study conducted by the Finance San Antonio Ad Hoc Committee, the finance industry is San Antonio's largest economic generator with an annual economic impact of $20.5 billion in 2004. The industry employs 50,469 people to whom it pays an average wage of $52,612, considerably higher than the average wage of $33,911. Total wages paid in the industry amounted to $2.66 billion in 2004. As a percent of total employment, the finance industry in San Antonio is the largest of any major metropolitan area in Texas. Compared to the growth in wages and employment in San Antonio overall, the finance industry experienced higher levels of average annual growth in these areas since 2001. Average annual growth in total wages paid by the finance industry for years 2001 through 2004 was 4.5%, compared to 4% for all industries. Average annual growth in employment in the finance industry over this same time period was 2.18%, compared to 0.36% for all other industries.

The largest sector in this industry is insurance. While this sector is led by USAA, San Antonio is home to several other insurance headquarters such as Argonaut Group, Catholic Life, GPM Life, as well as being the home to many regional operations centers for many health care insurers. Insurers with substantial regional operations centers in San Antonio include Caremark, United Health, and Pacificare.

The second largest sector in this industry is banking. Like insurance, San Antonio is also the home of many banking headquarters and regional operation centers such as Frost Bank, Broadway Bank, and USAA Bank. Companies with large regional operations centers in San Antonio include World Savings, Chase, and Citicorp. Each of these companies has experienced substantial growth since arriving in San Antonio, and they continue to grow today. In addition to this growth, Washington Mutual has just opened a regional operations center that will result in the creation of 2,000 to 5,000 jobs over the next several years.

Healthcare & Bioscience Industry

The healthcare and bioscience industry remains the largest industry sector in the San Antonio economy. The industry is diversified, with related industries such as research, pharmaceuticals, and manufacturing contributing approximately the same economic impact as health services. According to the *San's Antonio's Healthcare and Bioscience Industry Economic Impact Study* commissioned by the Greater San Antonio Chamber of Commerce, the total economic impact from this industry sector totaled approximately $13.7 billion in 2004. The industry provided more than 109,000 jobs, or approximately 14.6 percent of the City's total employment. The healthcare and bioscience industry's annual payroll in 2004 approached $4.2 billion. The 2004 average annual wage of San Antonio workers was $33,911, compared to $38,531 for healthcare and bioscience employees. These 2004 economic impact figures represent growth of 4 percent over the previous year, or approximately $800 thousand.

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* Unaudited.

Health Care. The 900-acre South Texas Medical Center (the "Medical Center") has ten major hospitals and nearly 80 clinics, professional buildings, and health agencies with combined budgets of over $2.5 billion as of January 2005. Approximately 26,757 Medical Center employees provided care for over 3.92 million outpatients and over 102,000 inpatients. Physical plant values, not adjusted for inflation, representing the original investments in physical facilities and equipment (less depreciation) represents approximately $1.854 billion, which is a $120 million increase in 2004 over the previous year. The Medical Center has about 300 acres of undeveloped land still available for expansion. Capital projects already in progress total $65 million. Capital projects planned for the years 2006 through 2010 will add an additional estimated $152 million to present physical plant and equipment values.

Central to the Medical Center is The University of Texas Health Science Center at San Antonio (the "UT Health Science Center") with its five professional schools awarding more than 50 degrees and certificates, including Doctor of Medicine, Doctor of Dental Surgery, and Doctor of Philosophy in nursing, allied sciences, and other fields. The UT Health Science Center oversees the new, federally-funded Regional Academic Health Center in the Rio Grande Valley with facilities in Harlingen, McAllen, Brownsville, and Edinburg. An extension campus is under construction in Laredo, Texas.

There are numerous other medical facilities outside the boundaries of the Medical Center, including 25 short-term general hospitals, two children's psychiatric hospitals, and two state hospitals. There are three Department of Defense hospitals, one of which is located in the Medical Center (as hereinafter described).

Military Health Care. San Antonio has three major military hospitals, each of which has positively impacted the City for decades. Brooke Army Medical Center ("BAMC") conducts treatment and research in a new, 1.5 million square foot facility at Fort Sam Houston United States Army Base, providing health care to nearly 600,000 military personnel and their families. BAMC is a level-one trauma center (the only one in the United States Army medical care system) and contains the world-renowned Institute of Surgical Research Burn Center. BAMC also conducts bone marrow transplants in addition to more than 600 ongoing research studies.

Wilford Hall Medical Center ("Wilford Hall") is the largest medical facility of the United States Air Force. In addition to providing health care to military personnel and their families, Wilford Hall is also a level-one trauma center (the only one in the United States Air Force medical care system) that handles emergency medical care for approximately one-fourth of the City's emergency patients. Wilford Hall provides medical education for the majority of its physician and dental specialists and other health professionals, conducts clinical investigations, and offers bone marrow and organ transplantation.

Audie L. Murphy Memorial Veterans Hospital, located in the Medical Center, is an acute care facility and supports a nursing home, the Spinal Cord Injury Center, an ambulatory care program, the Audie L. Murphy Research Services (which is dedicated to medical investigations), and the new Frank Tejeda Veterans Administration Outpatient Clinic (which serves veterans located throughout South Texas).

The two military medical care facilities and the Veterans Hospital partner in a variety of ways, including clinical research and the provision of medical care to military veterans. This partnership is unique and represents a valuable resource to San Antonio and the nation.

Biomedical Research and Development. Research and development are important areas that strengthen San Antonio's position as an innovator in the biomedical field, with total research economic impact exceeding $1.005 billion annually.

The Texas Research Park (the "Park") is the site for the University of Texas Institute of Biotechnology/Department of Molecular Medicine, the Cancer Therapy and Research Center ("CTRC"), and CTRC's Research Center's Institute for Drug Development, The Southwest Oncology Group, and dozens of new biotechnology-related companies, whose work involves various stages of the very complicated drug development process. The Park has over $100 million invested in its facilities and equipment and generates more than $200 million in economic activity for the City each year. The Park is owned and operated by the Texas Research and Technology Foundation, whose mission includes building a world-class center for life-science research and medical education and promoting economic development through job creation.

The Southwest Foundation for Biomedical Research, which conducts fundamental and applied research in the medical sciences, is one of the largest independent, non-profit, biomedical research institutions in the United States, and is internationally renowned. The Southwest Foundation for Biomedical Research has a full time staff of 72 doctoral level employees, a technical staff of 115, and an administrative and supporting staff of 201 persons. Research departments include Departments of Genetics, Physiology and Medicine, Virology and Immunology, and Organic and Biological Chemistry. The Department of Laboratory Animal Medicine maintains the animal care facilities. The Foundation is also home to one of the few Biosafety Level 4 labs in the country, and its Genomics Computing is the world's largest computer cluster devoted to statistical genetic analysis.

The UT Health Science Center has been a major bioscience research engine since its inception, with strong research groups in cancer, cancer prevention, diabetes, drug development, geriatrics, growth factor and molecular genetics, heart disease, stroke prevention, and many other fields. One of its latest achievements is the establishment of the Children's Cancer Research Center, endowed with $200 million from the State of Texas's tobacco settlement. The UT Health Science Center, along with the CTRC, forms the San Antonio Cancer Institute, a National Cancer Institute-designated Comprehensive Cancer Center.

UTSA houses the Cajal Neuroscience Research Center, which is funded by $11 million in ongoing grants and is tasked with training students in research skills while they perform basic neuroscience research on subjects such as aging and Alzheimer's disease. UTSA is also the recipient of more than $35 million for its new School of Bioengineering.

A number of highly successful private corporations, such as Mission Pharmacal, DPT Laboratories, Ltd., and Genzyme Oncology, Inc., operate their own research and development groups and act as guideposts for numerous biotech startups, bringing new dollars into the area's economy. A notable example of the results of these firms' research and development is Genzyme Oncology, Inc., which has developed eight of the last 11 cancer drugs approved for general use by the Federal Drug Administration.

Hospitality Industry

The City's diversified economy includes a significant sector relating to the hospitality industry, which ranks second in its local economic impact. A recent study by the Greater San Antonio Chamber of Commerce found that in 2002 the hospitality industry had an economic impact of nearly $7.2 billion. The estimated annual payroll for the industry in 2002 was $1.2 billion, and the industry employed over 80,000. The economic impact study is scheduled to be updated in 2006.

In 2004, the City's overall performance for hotel occupancy increased by 1.5%, revenue per available room ("RevPAR") increased by 4.4%, and total room nights sold in the destination increased by 2.1%. In 2005, from January through November, hotel occupancy increased by 6.5%, RevPAR increased by 12.3%, and total room nights sold in the destination increased by 7.8%, as compared to the same prior period in 2004.

Tourism. During 2004, San Antonio attracted over 21.3 million visitors with direct spending across all industries of $4.3 billion and ranked tenth among U.S. destinations for overnight leisure travel, according to the National Performance Monitor survey conducted by D.K. Shifflet & Associates. This information is updated on a biennial basis with the next release scheduled for July 2007. The list of attractions in the San Antonio area includes, among many others, the Alamo, and other sites of historic significance, the River Walk, two major theme parks (SeaWorld of Texas and Six Flags Fiesta Texas), and the professional basketball team, the San Antonio Spurs.

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Conventions. San Antonio is one of the top convention cities in the country. The City is proactive in attracting convention business through its management practices and marketing efforts. The following table shows both overall city performance as well as convention activity booked by the San Antonio Convention & Visitors Bureau for the years indicated:

Fiscal Year Ended 9/30	Hotel Occupancy [1]	Hotel RevPAR [1]	Room Nights Sold[1]	Convention Attendance[2]	Convention Room Nights [2]	Convention Delegate Expenditures ($ Millions) [2, 3]
1995	68.2%	$55.03	5,255,310	400,751	744,954	$328.1
1996	66.3%	$54.71	5,569,917	486,383	725,395	$398.3
1997	64.5%	$55.26	5,747,771	417,492	670,039	$341.9
1998	66.1%	$58.35	6,093,945	445,151	724,882	$401.0
1999	65.2%	$57.46	6,219,742	406,539	678,014	$366.2
2000	65.5%	$60.21	6,495,654	389,448	696,215	$350.8
2001	63.1%	$58.19	6,361,879	419,970	712,189	$378.3
2002	64.1%	$59.60	6,581,841	521,278	826,566	$469.6
2003	64.6%	$57.41	6,871,139	424,951	709,081	$382.8
2004	65.6%	$59.95	7,006,608	504,354	710,619	$524.1

1 Data obtained from Smith Travel Research based on hotels in San Antonio as of November 2005.
2 Reflects only those conventions booked by the Convention and Visitors Bureau.
3 For the years of 1995 through 1997, the estimated dollar value is calculated in accordance with a 1993 Deloitte & Touche LLP study for the International Association of Convention and Visitor Bureaus ("IACVB") which reflected the average expenditure of $818.82 per convention and trade show delegate. Beginning in 1998, the estimated dollar value is calculated in accordance with the 1998 IACVB Foundation Convention Income Survey Report conducted by Deloitte & Touche LLP, which reflected the average expenditure of $900.89 per convention and trade show delegate. Calendar year 2004 is based on an average expenditure of $1,030.20 per convention and trade show delegate, according to a Veris Consulting, LLC study for the IACVB.

Military Industry

The military represents a principal component of the City's economy providing an annual economic impact for the City of over $5 billion. Three major military installations are currently located in Bexar County, including Lackland Air Force Base ("Lackland AFB"), Fort Sam Houston Army Base ("Fort Sam"), and Randolph Air Force Base ("Randolph AFB"). In addition, the property of Brooks Air Force Base ("Brooks AFB"), a fourth major military installation, was transferred from the United States Air Force (the "Air Force") to the City-created Brooks Development Authority ("BDA") in 2002, as part of the Brooks City-Base Project ("Brooks City-Base"). Furthermore, the military is still leasing over two million square feet of space at KellyUSA, which is the former Kelly Air Force Base that was closed in 2001.

KellyUSA. On July 13, 2001, Kelly Air Force Base ("Kelly AFB") officially closed and the land and facilities were transferred to the Greater Kelly Development Authority ("GKDA"), a City Council-created organization responsible for overseeing the redevelopment of the base into a business and industrial park. The new business park, known as KellyUSA, is focused on becoming the Port of San Antonio by: (1) establishing international air cargo operations; (2) developing a rail port for direct international rail operations including inland port distribution with the Port of Corpus Christi; (3) expanding aviation maintenance, repair, and overhaul ("MRO") operations into a renowned international center of excellence for MRO.

As of December 2005, there were over 63 tenants employing over 12,469 people with an average salary of over $38,000 and a total economic impact of $2.76 billion per year. Major commercial employers at KellyUSA include Boeing, Lockheed Martin, General Electric, General Dynamics, Standard Aero, Pratt & Whitney, Chromalloy, Gore Design Completions, and EG&G.

With 95% of the marketable 8.2 million square feet leased, GKDA is now focused on development of new Class A facilities leveraging public and private investment to create more jobs for San Antonio. In 2005, a total of 514,400 square feet of new hangar, distribution, and flex/office facilities were constructed at KellyUSA. GDKA's development plan forecasts $336 million of new construction for buildings and infrastructure over the next 5 years. KellyUSA's economic impact to San Antonio is projected to increase to over $4.6 billion per year upon full build-out.

Brooks City-Base. Brooks City-Base continues to draw private business investment, however, the military missions will be relocated over the next three to five years as a result of the 2005 Base Realignment and Closure (see "BRAC" herein) recommendations. The City is several years ahead in redevelopment over the other military installations across the United States facing the same relocations and closures from the BRAC. Despite the BRAC decision, Brooks City-Base is continuing its goal of sustainability by creating a Tax Increment Reinvestment Zone that encompasses the area inside and outside the Brooks City-Base as another tool to assist in its development. As a timeline is determined for the departure of Air Force missions, the BDA will have a better idea how best to redevelop the approximately 2 million square feet of current total space including lab, office and light industrial space.

Currently, there are over $170 million worth of projects planned for or are already underway. Some of these project highlights include:

In 2005, the BDA and a local pharmaceutical company, Dermatological Products of Texas ("DPT") Laboratories, approved an eighteen-year build-to-suit lease agreement for a combination research and development warehouse and production facility of nearly a quarter-million square feet at Brook-City Base. The project involves a capital investment of $24 million and construction is underway on the two new major buildings located at Brooks City-Base.

Vanguard Health Systems, Inc. and its affiliate Baptist Health System ("BHS") announced in 2005 that BHS has signed a letter of intent to acquire land to relocate Southeast Baptist Hospital to Brooks City-Base. The new hospital will initially be sized for 175 beds, but ultimately, the hospital could grow to more than 400 beds. The new hospital will bring 700 to 800 jobs to the south side of San Antonio and represents a significant economic investment in the community. Groundbreaking is expected to occur in mid 2006 with a grand opening slated for late 2007 or early 2008. Ultimately, the hospital will be part of a medical campus with one medical office building being constructed concurrently with the hospital and six additional buildings constructed under a phased timeline.

A $24.5 million Emergency Operations Center (the "EOC") is to be constructed at Brooks City-Base. The EOC, which will be financed through City and Bexar County proposed bond funds, will be the anchor of the planned Emergency Preparedness Institute, and will be a campus of City, County, Regional, State and Federal departments and/or personnel. The EOC is anticipated to be operational by December 2007.

The San Antonio Metropolitan Health District ("SAMHD") has completed renovation of a Brooks City-Base facility to establish a Biosafety Level 3 ("BSL3") Laboratory. SAMHD plans to institute additional public health capabilities at Brooks City-Base and is investigating plans to move the majority of its downtown resources to the BSL3 Laboratory at Brooks City-Base.

The Texas State Board of Education approved the charter school application filed by Somerset Academy in collaboration with the Brooks City-Base Foundation and the BDA, allowing for the development of a charter school at Brooks City-Base. Construction will be underway soon with classes set to start in September 2006. The school's curriculum will focus on science and engineering, providing students with a unique opportunity to learn and participate in the cutting-edge Air Force programs found at Brooks City-Base and throughout San Antonio.

Fort Sam and Lackland AFB. Fort Sam is engaged in military-community partnership initiatives to help reduce infrastructure costs and pursue asset management opportunities using military facilities. In April 2000, the United States Army (the "Army") entered into a partnership with the private organization, Fort Sam Houston Redevelopment Partners, Ltd. ("FSHRP"), for the redevelopment of the former Brooke Army Medical Center and two other buildings at Fort Sam. These three buildings, totaling about 500,000 square feet in space and located in a designated historic district, had been vacant for some time and were in a deteriorating condition. On June 21, 2001, FSHRP signed a 50-year lease with the Army to redevelop and lease these three properties to commercial tenants.

In September 2003, the Army relocated Army South Headquarters from Puerto Rico to Fort Sam, bringing approximately 500 new jobs to San Antonio with an annual economic impact of approximately $200 million. The Army negotiated a lease with the FSHRP to locate United States Army South and the Southwest Region Installation Management Agency in the newly renovated historic facilities in the summer of 2004. The continued success of this unique public-private partnership at Fort Sam is critical to assisting the Army in reducing infrastructure support costs, preserving historical assets, promoting economic development opportunities, and generating net cash flow for both the Army and FSHRP.

This project supports the City's economic development strategy to promote development in targeted areas of the City, leverage military installation economic assets to create jobs, and assist our military installations in reducing base support operating costs. The Army intends to extend the public-private partnership initiative to include other properties at Fort Sam currently available for redevelopment.

Base Realignment and Closure ("BRAC"). On November 8, 2005, the recommendations of the BRAC Commission became law. As a result of BRAC, the San Antonio area will benefit from a net gain of about 3,600 jobs over the next three to five years. In addition, transformation is ongoing throughout the military services resulting in the reorganization of many military missions and units. For example, at Fort Sam, the Army transformation actions are expected to create an additional 4,000 jobs over the next few years in addition to the growth from BRAC discussed below. Furthermore, the National Security Agency has announced an expansion of its activities in San Antonio and will be adding about 1,500 jobs over the next two years.

Key elements of BRAC include the creation of a the United States Department of Defense ("DoD") Regional Medical Center at the new BAMC and the establishment of Fort Sam Houston as the home for all DoD enlisted medical training. BAMC will be one of only two such DoD Regional Medical Centers in the country and will merge with the Wilford Hall at Lackland AFB. While the Wilford Hall facility at Lackland will close, the DoD intends to build a new 450,000 square foot medical care clinic at Lackland. In addition, a number of Army Agency Headquarters will also be relocating to Fort Sam from other bases around the country. As these changes occur over the next three to six years, Fort Sam Houston will grow by over 13,000 jobs to about 40,000. Based on the planned changes at Fort Sam and Lackland AFB, the community is also expecting to benefit from over $2 billion in new construction and renovation of facilities at both bases. Finally, the recommended BRAC enhancements to military medical care training and capacity will also greatly strengthen and grow the currently existing partnerships between the military and community institutions. These will facilitate continued growth in the community's number one targeted industry of bioscience and healthcare.

Defense Transformation Institute ("DTI"). DTI is a non-profit entity established by the Texas Research and Technology Foundation in partnership with the City. DTI's mission is to leverage the assets at active duty military installations to create value for the military and the community. These military assets can include land, facilities, education, technology, research, and training. DTI is also prepared to act as the community's lead agency for partnering with the military to help plan, coordinate, implement, and accelerate the results of BRAC 2005 to the benefit of the military and the community. DTI is also partnering with the State to conduct workshops on how communities can effectively partner with their military counterparts to achieve mutual benefit.

Other Major Industries

Aerospace. The aerospace industry's annual economic impact to the City is about $2.9 billion. This industry provides some 8,283 jobs, with employees earning total annual wages of over $320 million. The aerospace industry continues to expand as the City leverages its key aerospace assets, which include San Antonio International Airport, Stinson Municipal Airport, KellyUSA, Randolph AFB and Lackland AFB, and training institutions. Many of the major aerospace industry participants have significant operations in San Antonio, such as Boeing, Lockheed Martin, General Electric, Pratt & Whitney, Raytheon, Cessna, San Antonio Aerospace – a division of Singapore Technologies, Southwest Airlines, American Airlines, Delta and Continental, FedEx, UPS, and others. The industry in San Antonio is much diversified with continued growth in air passenger service, air cargo, MRO, and general aviation.

Aerospace Research and Development. In May 2005, the National Sustainment Technology Center (NSTC) opened in San Antonio to research and develop solutions to address the challenges and requirements faced by the DoD in the maintenance of aging weapon systems. The NSTC falls under the Defense Sustainment Consortium ("DSC") which is a collaboration of DoD and industry stakeholders involved in the acquisition and support for DoD weapon systems. The NSTC will conduct funded pilot projects involving DSC members, academia, and government partners to produce innovative solutions for unique problems associated with aging weapon systems. The NSTC will also promote technology transfer from small business to DoD customers and defense contractors. By having the NSTC in San Antonio, local businesses, educational institutions, and other public/private entities can collaborate to compete for these research and development opportunities.

San Antonio Technology Accelerator Initiative. San Antonio Technology Accelerator Initiative ("SATAI") is a targeted economic development initiative focused on developing an advanced technology economy in the San Antonio region. SATAI's mission is to accelerate the regional technological economy through providing hands-on development of advanced technology start-up companies and assisting established companies in accessing technology-based solutions through Enterprise Services. SATAI recently become the home of the South Texas Regional Commercialization and Innovation Center (STRCIC). The STRCIC was established in response to the creation of the Emerging Technology Fund by the State of Texas. Its purpose is to review funding requests submitted by technology startup companies who are seeking funding from the Emerging Technology Fund.

In this past legislative session, the State of Texas (the "State") created the $200 million Emerging Technology Fund ("ETF"). The ETF is to be used to help foster the development of the technology industries in San Antonio by providing another source of financial capital to entrepreneurs, providing matching grants for research, and allocating funds to be used to acquire research superiority at colleges and universities throughout the state. In order to participate in the ETF, the Bexar County region is establishing a Regional Center of Innovation and Commercialization (RCIC), as required by law. The RCIC will review potential commercialization opportunities presented by local entrepreneurs and make recommendations for possible funding to the Texas Emerging Technology Committee. The State has recognized the SATAI to serve as the RCIC for the San Antonio region.

In May 2005, the community also formed the Defense Technology Cluster (the "Cluster") in partnership with the SATAI. The Cluster is a collaboration of local companies currently doing business with the Department of Defense and/or the Department of Homeland Security. Through this collaboration, the Cluster expects to attract more defense technology work to San Antonio, create an awareness of the technical capabilities of local firms, and promote the growth and expansion of defense technology companies in the community. The Cluster seeks to become the recognized source for information and resources on the talent and capabilities of firms in the San Antonio region available to support defense technology requirements.

Applied Research & Development. The Southwest Research Institute is one of the original and largest independent, nonprofit, applied engineering and physical sciences research and development organizations in the United States, serving industries and governments around the world in the engineering and physical sciences. Southwest Research Institute has contracts with the Federal Aviation Administration, General Electric, Pratt & Whitney, and other organizations to conduct research on many aspects of aviation, including testing synthetic jet fuel, developing software to assist with jet engine design, and testing turbine safety and materials stability. Southwest Research Institute occupies 1,200 acres and provides nearly two million square feet of laboratories, test facilities, workshops, and offices for more than 2,700 scientists, engineers, and support personnel.

Telecommunications Industry. San Antonio became the headquarters for AT&T, Inc. ("AT&T") after SBC Communications, Inc. ("SBC") acquired the New Jersey-based company for $16 billion and took its name in 2005. The recently completed merger created one of the largest telecommunications and networking companies in the world and the largest national phone service provider. According to a published report, this will result in more than 100 AT&T employees relocating to San Antonio, including senior executives. The newly merged AT&T has approximately 189,950 employees worldwide as of December 2005.

Information Technology. The Information Technology ("IT") industry is one of the fastest- growing sectors of the local economy. A study conducted in 2001, cites that the IT industry in San Antonio registered an overall economic impact of approximately $3.4 billion which represents about seven percent of the San Antonio economy. The annual payroll among the IT industry's estimated 11,500 employees totals approximately $500 million. The IT industry is particularly strong in the areas of information security and government contracting. The Center for Infrastructure Assurance and Security at the University of Texas at San Antonio is one of the leading research and education institutions in the area of information security in the country. In 2005, the United States National Security Agency (the "NSA") re-designated the University of Texas at San Antonio a National Center of Excellence in Information Assurance for three academic years. San Antonio is also home to the Air Intelligence Agency, which is the premier IT agency for the Air Force and the DoD. Adding to the growth of this industry, the NSA recently announced they are investing $300 million in a new facility and adding at least 1,500 new jobs over the next few years in San Antonio.

Manufacturing Industry. The manufacturing industry of the City's economy has seen significant growth over the past two years, in large part due to the construction of the new Toyota Motor Manufacturing ("Toyota") facility and the development of the Toyota Supplier Park at its manufacturing site. Toyota will invest over $850 million in this manufacturing facility, located on 2,000 acres in south San Antonio, and at full production, the facility will produce 200,000 full-size Tundra trucks. At full operations, the payroll for the 2,000 workers at the facility will total between $90 and $100 million. The Toyota Supplier Park has attracted 21 Tier-One supplier companies resulting in an additional capital investment of over $300 million and 2,100 additional automotive manufacturing jobs.

In order to support the growth of the manufacturing sector, the Manufacturing Technology Academy was created in 2004. At this Academy, high school students learn many skills applicable to a variety of manufacturers, including manual and automated welding, machining, safety techniques, and total quality management.

Creative Industry. The creative industry in San Antonio registers a $1.2 billion economic impact, employs 11,888 people, and pays annual wages of $319 million. This industry consists of the following sectors, with economic impact in parentheses: performing arts ($475.3 million), design and advertising ($401.1 million), museums and collections ($233.7 million), visual arts and photography ($84.0 million), and fine arts schools ($22.1 million). If the printing, publishing, and broadcasting sectors were included, the economic impact would be $3.5 billion. Recognizing the overall impact of this industry, *The Cultural Collaborative: A Plan for San Antonio's Creative Economy*, was created and a strategic plan was developed to provide focus and initiative for the future of this industry.

Sources: The Greater San Antonio Chamber of Commerce; San Antonio Medical Foundation; City of San Antonio, Department of Economic Development and Convention and Visitors Bureau.

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Growth Indices

San Antonio Electric and Gas Customers

For the Month of December	Electric Customers	Gas Customers
1996	528,302	299,140
1997	538,729	301,044
1998	548,468	301,842
1999	560,628	302,991
2000	575,461	305,181
2001	589,426	305,702
2002	594,945	306,503
2003	602,185	306,591
2004	617,261	308,681
2005	638,344	310,699

Source: CPS.

San Antonio Water System Average Customers per Fiscal Year

Fiscal Year Ended May 31 [1, 2]	Water Customers [3]
1996	269,405
1997	273,276
1998	270,897
1999	279,210
2000	285,887
2001	292,136
2002	298,215
2003	303,917
2004	311,554
2005	323,149

[1] On April 3, 2001, the SAWS Board of Trustees approved the changing of SAWS' fiscal year from a year-end of May 31 to December 31.
[2] Beginning in year 2001, for the 12 months ending December 31.
[3] Excluding SAWS irrigation customers.
Source: SAWS.

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Construction Activity

Set forth below is a table showing building permits issued for construction within the City at December 31 for the years indicated:

Calendar	Residential Single Family		Residential Multi-Family[1]		Other[2]	
Year	Permits	Valuation	Permits	Valuation	Permits	Valuation
1996	4,306	$ 261,540,367	171	$ 64,282,630	9,055	$ 578,225,607
1997	4,240	257,052,585	155	42,859,473	8,170	717,988,779
1998	5,630	363,747,169	85	23,194,475	8,193	892,766,648
1999	5,771	398,432,375	404	157,702,704	9,870	911,543,958
2000	5,494	383,084,509	201	81,682,787	10,781	957,808,435
2001	6,132	426,766,091	449	142,506,920	12,732	1,217,217,803
2002	6,347	435,090,131	246	101,680,895	14,326	833,144,271
2003	6,771	521,090,684	141	2,738,551	13,813	1,041,363,980
2004	7,434	825,787,434	206	7,044,283	14,695	1,389,950,935
2005	8,207	943,804,795	347	5,221,672	20,126	1,772,959,286

[1] Includes two-family duplex projects.
[2] Includes commercial building permits, commercial additions, improvements, extensions, and certain residential improvements.
Source: City of San Antonio, Department of Development Services.

Total Municipal Sales Tax Collections – Ten Largest Texas Cities

	Calendar Year				
	2005	2004	2003	2002	2001
Amarillo	$ 50,524,792	$ 48,155,445	$ 44,581,868	$ 44,201,183	$ 43,357,043
Arlington	61,983,154	49,344,578	46,483,314	42,493,256	65,948,096
Austin	118,853,520	112,515,478	105,044,871	110,208,923	117,393,240
Dallas	199,585,955	192,972,586	184,263,151	192,542,321	210,130,838
El Paso	54,217,823	51,461,838	48,949,656	47,465,776	46,876,210
Fort Worth	83,754,760	76,202,528	72,772,964	72,632,487	72,975,421
Houston	380,871,932	355,616,488	325,284,697	334,122,179	337,540,694
Irving	41,573,304	37,719,779	36,584,559	38,810,594	43,188,105
Plano	53,036,662	49,453,998	46,876,867	45,309,249	47,327,003
SAN ANTONIO	161,951,337	157,284,972	152,360,840	153,207,656	151,422,401

Source: State of Texas, Comptroller's Office.

Education

There are 15 independent school districts within Bexar County with a combined enrollment of 281,371 encompassing in the aggregate 41 high schools, 70 middle/junior high schools, and 247 elementary schools as of October 2005. There are an additional 25 charter school districts with 53 open enrollment charter schools at all grade levels. In addition, Bexar County has 94 accredited private and parochial schools at all education levels. Generally, students attend school in the districts in which they reside. There is currently no busing between school districts in effect.

The six largest accredited and degree-granting universities, which include a medical school, a dental school, and a law school, and four public community colleges, had combined enrollments of 96,943 for fall 2005.

Source: Texas Education Agency.

Employment Statistics

The following table shows current nonagricultural employment estimates by industry in the San Antonio MSA for the period of February 2006, as compared to the prior periods of January 2006 and February 2005.

Employment by Industry

San Antonio MSA[1]	February 2006	January 2006	February 2005
Natural Resources and Mining & Construction	48,500	48,400	45,700
Manufacturing	46,500	46,300	45,500
Trade, Transportation, and Utilities	138,000	138,300	136,100
Information	20,100	20,200	20,700
Financial Activities	61,700	61,400	61,400
Professional and Business Services	98,000	97,200	93,700
Educational and Health Services	108,600	107,800	105,600
Leisure and Hospitality	87,500	85,300	85,400
Other Services	27,400	27,200	26,500
Government	146,600	143,900	145,300
Total Nonagricultural	782,900	776,000	765,900

The following table shows civilian labor force estimates, the number of persons employed, the number of persons unemployed, and the unemployment rate in the San Antonio MSA, Texas, and the United States for the period of February 2006, as compared to the prior periods of January 2006 and February 2005.

Unemployment Information *(all estimates are in thousands)*

San Antonio MSA [1]	February 2006	January 2006	February 2005
Civilian Labor Force	904.7	899.3	892.5
Number of Employed	862.0	856.3	843.7
Number of Unemployed	42.7	43.0	48.8
Unemployment Rate %	4.7	4.8	5.5

Texas (Actual)[1]	February 2006	January 2006	February 2005
Civilian Labor Force	11,329.5	11,289.6	11,110.0
Number of Employed	10,742.9	10,696.2	10,456.1
Number of Unemployed	586.6	593.4	653.9
Unemployment Rate %	5.2	5.3	5.9

United States (Actual)[2]	February 2006	January 2006	February 2005
Civilian Labor Force	149,686.0	149,090.0	147,649.0
Number of Employed	141,994.0	141,481.0	139,100.0
Number of Unemployed	7,692.0	7,608.0	8,549.0
Unemployment Rate %	5.1	5.1	5.8

1 *Based on Labor Market Information Department, Texas Workforce Commission (model-based methodology).*
2 *Based on Bureau of Labor Statistics, U.S. Department of Labor (Current Population Survey).*

Employers with 500 or More Employees in the San Antonio Metropolitan Area
(Includes Bexar, Comal, Guadalupe, and Wilson Counties)[1]

Firm	Product/Service	Firm	Product/Service
Construction:			
CCC Group, Inc.	Industrial Contractor	Urban Concrete Contractors, Ltd.	Exterior Concrete Contractor
Design Electric	Electrical Contractor	Zachry Group	Industrial General Contracting
Finance, Insurance, & Real Estate:			
American Funds	Mutual Funds & Investments	San Antonio Federal Credit Union	Credit Union/Financial Services
Argonaut Group	Insurance	Security Service Federal Credit Union	Credit Union/Financial Services
Bank of America - San Antonio	Commercial & Individual Banking	The Hartford	Personal Insurance
Frost National Bank	Financial Services & Insurance	The Lynd Company	Real Estate Brokerage
Humana	Medical Insurance Plans	USAA	Insurance/Financial Services
JP Morgan Chase Bank	Commercial & Individual Banking	Washington Mutual Bank	Banking, Financial Services
Pacificare	Medical Insurance Plans	Wells Fargo Bank	Banking, Financial Services
Randolph-Brooks FCU	Credit Union/ Financial Services	World Savings	Banking, Financial Services
SWBC	Insurance, Residential Mortgages		
Government:			
Bexar County	County Government	Randolph Air Force Base	Military Installation
Brooks City-Base	Military Installation	San Antonio Housing Authority	Public Housing Assistance
City of San Antonio	Municipal Government	Texas Department of Transportation	Highway Construction/Maint.
Education Service Center Region 20	State Education Service Agency	Texas Dept. of Family & Child Protective Services	State Social Services
Fort Sam Houston-US Army Base	Military Installation	Texas Dept. of Health & Human Services	State Social Services
Guadalupe County	County Government	VIA Metropolitan Transit	Urban Public Transportation
Lackland Air Force Base	Military Installation		
Manufacturing:			
Alamo Concrete Products	Concrete Products	Miller Curtain Company	Curtains, Draperies, & Bedspreads
Cardell Cabinetry	Cabinetry	Motorola	Electronics
Clarke American	Check Printing	SAS Shoemakers	Shoes
Coca-Cola Bottling Co. of the SW	Soft Drinks, Beverages	SMI-Texas	Steel
DPT Laboratories,Ltd.	Pharmaceuticals	San Antonio Aerospace	Aircraft Modification/Maint.
Friedrich Air Conditioning Co.	HVAC Systems	San Antonio Express-News	Daily Newspaper
Frito-Lay, Inc.	Snack Foods	Sino-Swearingen Aircraft Co.	Aircraft Design, Marketing/Sales
Kinetic Concepts, Inc.	Specialty Medical Products	Tesoro Corporation	Refining/Sales of Petroleum Prod.
L & H Packing Company	Meat Packing	The Scooter Store, Inc.	Medical & Dental Equipment
Lancer Corporation	Beverage Dispensing Equipment	Valero Energy Corporation	Refining/Sales of Petroleum Prod.
Martin Marietta Materials SW, Inc.	Concrete, Limestone, & Asphalt	Vulcan Materials	Materials, Cement, & Concrete
Medical:			
Advanced Living Technologies	Skilled Nursing Care Facilities	Methodist Healthcare System	General Acute Care Hospitals
Allied Primary Home Care Svcs.	Home Health Care Services	Methodist Specialty & Transplant Hosp.	Specialty Care Hospital
Baptist Health System	General Acute Care Hospitals	Metropolitan Methodist Hospital	General Acute Care Hospital
Brooke Army Medical Center	Military Hospital	Nix Health Care System	Hospital/Health Care Services
Caremark Prescription Service	Mail Order Pharmacy	Outreach Health Services	Home Health Care
Center for Health Care Services	Mental Health/Mental Retardation	San Antonio State Hospital	Mental Health/Mental Retardation
Christus Santa Rosa Health Care	General Acute Care Hospitals	San Antonio State School	Residential Care Facility
Girling Health Care, Inc.	Home Health Care Services	South Texas Blood & Tissue Center	Collect/Distribute Blood & Tissue
Guadalupe Valley Hospital	Hospital/Health Care Services	South Texas Veterans Health Care Sys.	Hospital/Health Care Services
Home Nursing & Therapy Svcs.	Home Health Care	Southwest General Hospital	Hospital/Health Care Services
Interim Healthcare San Antonio	Nurses' Registry	University of Texas Health Science Center at San Antonio	Medical School
McKenna Memorial Hospital	Hospital/Health Care Services	University Health System	Public Hospital/Clinics
Medical Team, Inc.	Home Health Care		
Methodist Children's Hospital	Children's Hospital		
Retail:			
Aaron Rents and Sells Furniture	Office & Residential Furniture	H-E-B Grocery Company	Groceries & Distribution
Ancira Enterprises	Automotive Sales & Service	HOLT CAT	Caterpillar Heavy Equipment
Brylane	Mail Order & Catalog Shopping	QVC San Antonio Inc.	Electronic Retail Sales
CVS/Pharmacy	Pharmacy Stores	R & L Foods, Inc.	Fast Foods
Dillard's Department Stores	Department Stores	Sun Harvest Farms, Inc.	Natural Food Grocery Stores
Eye Care Centers of America, Inc.	Eyewear	Target Stores	Discount Retail Stores
Foley's Department Stores	Department Stores	Twigland Fashions Ltd.	Women's Apparel
Gunn Automotive Group	Auto Dealerships		

[1] *January 2006, The Greater San Antonio Chamber of Commerce Largest Employer's Directory.*

(Table continues on next page.)

Employers with 500 or More Employees in the San Antonio Metropolitan Area (Includes Bexar, Comal, Guadalupe, and Wilson Counties)[1]

Firm	Product/Service	Firm	Product/Service
Services:			
AT & T Center	Sports/Events Arena	New Braunfels I.S.D.	Public School District
Able Body Labor	Temporary Staffing	Northside I.S.D.	Public School District
Administaff, Inc.	Professional Staffing	Our Lady of The Lake University	Higher Education, Private
Advance'd Temporaries, Inc.	Temporary Staffing	Palo Alto College	Junior/Community College
Advantage Rent-A-Car	Vehicle Rental	Parent/Child Inc.	Early Childhood Development
Air Force Village Foundation	Military Retirement Communities	Pioneer Drilling Company	Oil & Gas Drilling
Alamo Community College District	Public College District	RK Group	Catering
Alamo Heights I.S.D.	Public School District	Regal Cinemas	Movie Theaters
Alamodome	Domed Stadium	San Antonio College	Junior/Community College
Allen Tharp & Associates	Catering	San Antonio I.S.D.	Public School District
American Building Maintenance	Janitorial Contractor	Sanitors, Inc.	Commercial Janitorial
Archdiocese of San Antonio	Catholic Archdiocese	Schertz-Cibolo-Universal City I.S.D.	Public School District
Avance Inc.	Family Support & Education	Schlitterbahn Waterpark & Resort	Resort & Waterpark
Bill Miller Bar-B-Q Ent., Ltd	Restaurants & Catering	SeaWorld San Antonio	Entertainment/Amusement Park
Boeing Aerospace Support Center	Aerospace Support Center	Sears Customer Service Center	Customer Service Center
Cadbeck Staffing	Temporary Staffing	Securitas Security Services USA	Guard/Security Service
Calling Solutions, Inc.	Telemarketing	Seguin I.S.D.	Public School District
Citicorp – U.S. Service Center	Service Center	Six Flags Fiesta Texas	Entertainment/Amusement Park
Comal I.S.D.	Public School District	Somerset I.S.D.	Public School District
East Central I.S.D.	Public School District	South San Antonio I.S.D.	Public School District
Edgewood I.S.D.	Public School District	Southside I.S.D.	Public School District
Employers Resource Management	Temporary Staffing	Southwest I.S.D.	Public School District
Enterprise/Rent-A-Car Company	Vehicle Rental	Southwest Research Institute	Research & Development
Floresville I.S.D.	Public School District	Spectrum Health Club	Health Clubs
Frontier Enterprises	Restaurant Headquarters	St. Mary's University	Higher Education, Private
Goodwill Industries of S.A.	Vocational Training	St. Philip's College	Junior/Community College
Harcourt Assessment, Inc.	Test Publishers	Standard Aero, Inc.	Repair Aircraft Engines
Harlandale I.S.D.	Public School District	Taco Cabana, Inc.	Fast Food Restaurants
Hospital Klean of Texas, Inc.	Hospital Housekeeping	Talent Tree, Inc.	Temporary Staffing
Hyatt Hill Country Resort and Spa	Hotel Resort & Spa	Tanseco Inc./Div. of Radio Shack	Alarms & Monitoring
Infonxx	Information Retrieval Services	Treco Services, Inc.	Janitorial, Window Cleaning
Judson I.S.D.	Public Education	Trinity University	Higher Education, Private
Little Caesar's of San Antonio, Inc.	Pizza Take Out Stores	University of Texas at San Antonio	Higher Education, Public
Lockheed Martin Kelly Aviation	Aviation Consultants	University of The Incarnate Word	Higher Education, Private
Luby's Cafeterias, Inc.	Cafeterias	VIP Temporaries	Temporary Staffing
MTC, Inc.	Full Service Restaurants	Waste Management Inc.	Refuse Systems
Marriott Rivercenter/Riverwalk Hotels	Hotels	Wendy's of San Antonio Inc.	Fast Food Restaurants
McDonald's-Haljohn, Inc.	Fast Food Restaurants	Westaff	Temporary Staffing
Mi Tierra Cafe & Bakery, Inc.	Restaurant & Bakery	Whataburger of Alice	Fast Food Restaurants
Morningside Ministries	Retirement & Nursing Homes	YMCA of Greater of San Antonio	Health & Wellness
Transportation, Communications, & Utilities:			
AT&T, Inc.	Voice, Data, Telecommunications	Time Warner	Voice, Data, Telecommunications
CPS Energy	Natural Gas & Electric Service	U.S. Postal Service	Postal Delivery
San Antonio Water System	Water Services	United Parcel Service	Parcel Delivery
Southwest Airlines	Air Transportation		
Wholesale:			
Advantage Sales & Marketing	Sales & Marketing	SYGMA Network, Inc.	Distributor - Groceries
CARQUEST Auto Parts	Automotive Replacement Parts	San Antonio Auto Auction	Auto Auction
Color Spot Nurseries/SW Division	Plant Nurseries	Tyson Foods, Inc.	Poultry Slaughtering & Packing

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San Antonio Electric and Gas Systems

History and Management

The City acquired its electric and gas utilities in 1942 from the American Light and Traction Company, which had been ordered by the federal government to sell properties under provisions of the Public Utilities Holding Company Act of 1935. The bond ordinances authorizing the issuance of the currently outstanding Senior Lien Obligations, Junior Lien Obligations and Commercial Paper Notes establish management requirements and provide that the complete management and control of the City's electric and gas systems (the "EG Systems") is vested in a Board of Trustees consisting of five citizens of the United States of America permanently residing in Bexar County, Texas, known as the "City Public Service Board of Trustees, San Antonio, Texas" (referred to herein as the "CPS Board" or "CPS"). The Mayor of the City is a voting member of the Board, represents the City Council, and is charged with the duty and responsibility of keeping the City Council fully advised and informed at all times of any actions, deliberations, and decisions of the CPS Board and its conduct of the management of the EG Systems.

Vacancies in membership on the CPS Board are filled by majority vote of the remaining members. New CPS Board appointees must be approved by a majority vote of the City Council. A vacancy, in certain cases, may be filled by the City Council. The members of the CPS Board are eligible for re-election at the expiration of their first five-year term of office to one additional term only. In 1997, the City Council ordained that CPS Board membership should be representative of four geographic quadrants established by the City Council. New CPS Board members considered for approval by the City Council will be those whose residence is in a quadrant that provides such geographic representation.

The CPS Board is vested with all of the powers of the City with respect to the management and operation of the EG Systems and the expenditure and application of the revenues therefrom, including all powers necessary or appropriate for the performance of all covenants, undertakings, and agreements of the City contained in the bond ordinances, except regarding rates, condemnation proceedings, and issuances of bonds, notes, or commercial paper. The CPS Board has full power and authority to make rules and regulations governing the furnishing of electric and gas service and full authority with reference to making extensions, improvements, and additions to the EG Systems, and to adopt rules for the orderly handling of CPS' affairs. It is empowered to appoint and employ all officers and employees and must obtain and keep in force a "blanket" type employees' fidelity and indemnity bond covering losses in the amount of not less than $100,000.

The management provisions of the bond ordinances also grant the City Council authority to review CPS Board action with respect to research, development, and planning.

In 1997, CPS established a 15 member Citizens Advisory Committee ("CAC") to enhance its relationship with the community and to address the City Council's goals regarding broader community involvement with CPS. The CAC meets monthly and the primary goal of the CAC is to provide recommendations from the community on the operations of CPS for use by the CPS Board and CPS staff. Representing the various sectors of the CPS service area, the CAC encompasses a broad range of customer groups in order to identify their concerns and understand their issues.

Service Area

The CPS electric system serves a territory consisting of substantially all of Bexar County and small portions of the adjacent counties of Comal, Guadalupe, Atascosa, Medina, Bandera, Wilson, and Kendall. Certification of this CPS electric service area has been approved by the Public Utility Commission of Texas (the "PUCT").

CPS is currently the exclusive provider of electric service within the service area, including the provision of electric service to some Federal military installations located within the service area that own their own distribution facilities. As discussed below under "Electric Utility Restructuring in Texas; Senate Bill 7", until and unless the City Council and the CPS Board exercise the option to opt-in to retail electric competition (called "Texas Electric Choice" by the PUCT), CPS has the sole right to serve as the retail electric energy provider in its service area. On April 26, 2001, after a complete and thorough feasibility study was conducted and reviewed, the City Council passed a resolution stating that the City did not intend to opt-in to the deregulated electric market beginning January 1, 2002, the date Texas Electric Choice became effective. Senate Bill 7 ("SB 7"), adopted by the Texas Legislature in 1999, provides that electric "opt-in" decisions are to be made by the governing body or body vested with the power to manage and operate a municipal utility such as CPS. Given the relationship of the CPS Board and the City Council, any decision to opt-in to competition would be based upon the adoption of resolutions of both the CPS Board and the City Council. If the City and CPS choose to opt-in, other retail electric energy suppliers would be authorized to offer retail electric energy in the CPS service area and CPS would be authorized to offer retail electric energy in any other areas open to retail competition in the Electric Reliability Council of Texas ("ERCOT"). ERCOT is the independent entity that monitors and administers the flow of electricity within the interconnected grid that operates wholly within Texas. (See "Electric Utility Restructuring In Texas; Senate Bill 7."). CPS has the option of acting in the role of the "Provider of Last Resort" for its service area in the event it chooses to opt-in.

In addition to the area served at retail rates, CPS sells electricity at wholesale prices to the Floresville Electric Light & Power System, the City of Hondo, and the City of Castroville. These agreements have remaining terms ranging from three to fifteen years until expiration, although some of the agreements provide for automatic extension or conditional early termination. CPS believes that it will have additional opportunities to enter into long-term wholesale electric power agreements. The requirements under the existing and any new wholesale agreements would be firm energy obligations of CPS.

The CPS gas system serves the City and its environs, although there is no certificated CPS gas service area. In Texas, no legislative provision or regulatory procedure exists for certification of natural gas service areas. CPS competes against other gas supplying entities on the periphery of its service area. Pursuant to this License Agreement, the City permits the Licensee to provide, construct, operate and maintain certain natural gas lines within the boundaries of the City which it originally established in 1967 and to provide extensions and other improvements thereto upon compliance with the provisions of the License Agreement and upon the payment to the City of a quarterly license fee of 3% of the gross revenues received by the Licensee from the sale of natural gas within the Licensed Area (as defined in the License Agreement). Thus, in the Licensed Area, CPS is in direct competition with Grey Forest Utilities as a supplier of natural gas.

CPS has its own franchise agreements with 28 incorporated communities ("Suburban Cities") in the San Antonio area. These franchise agreements permit CPS to operate its facilities in the cities' streets and public ways in exchange for a franchise fee of 3% on electric and natural gas revenues earned within their respective municipal boundaries. The majority of these agreements expire in 2010; the others expire in 2006, 2011, 2017, 2028, and 2029.

Retail Service Rates

Under the Texas Public Utility Regulatory Act ("PURA"), significant original jurisdiction over the rates, services, and operations of "electric utilities" is vested in the PUCT. In this context, "electric utility" means an electric investor-owned utility. Since the electric deregulation aspects of SB 7 became effective on January 1, 2002, the PUCT's jurisdiction over the electric investor-owned utility companies primarily encompasses only the transmission and distribution function. PURA generally excludes municipally-owned utilities ("Municipal Utilities"), such as CPS, from PUCT jurisdiction, although the PUCT has jurisdiction over electric wholesale transmission rates. Under the PURA, a municipal governing body or the body vested with the power to manage and operate a Municipal Utility like the EG Systems has exclusive jurisdiction to set rates applicable to all services provided by the Municipal Utility with the exception of electric wholesale transmission activities and rates. Unless and until the City Council and CPS Board choose to opt-in to electric retail competition, CPS retail service electric rates are subject to appellate, but not original rate regulatory jurisdiction by the PUCT in areas that CPS serves outside the City limits. To date, no such appeal to PUCT of CPS retail electric rates has ever been filed. CPS is not subject to the annual PUCT gross receipts fee payable by electric utilities. (See "Electric Utility Restructuring in Texas; Senate Bill 7" herein.)

The Texas Railroad Commission ("TRC") has significant original jurisdiction over the rates, services, and operations of all natural gas utilities in the State. Municipal Utilities such as CPS are generally excluded from regulation by the TRC, except in matters related to natural gas safety. CPS retail gas service rates applicable to rate payers outside the municipality are subject to appellate, but not original rate regulatory jurisdiction, by the TRC in areas that CPS serves outside the City limits. To date, no such appeal to the TRC of CPS retail gas rates has ever been filed. In the absence of a contract for service, the TRC also has jurisdiction to establish gas transportation rates for service to State agencies by a Municipal Utility. A Municipal Utility is also required to sell gas to and transport State-owned gas for "public retail customers," including State agencies, State institutes of higher education, public school districts, U.S. military installations, and U.S. Veterans Affairs facilities, at rates provided by written contract between the Municipal Utility and the State or State agency, or failing agreement to such a contract, at a rate set by the legal and relevant regulatory body.

The City has covenanted and is obligated under the bond ordinances, as provided under the rate covenant, to establish and maintain rates and collect charges in an amount sufficient to pay all Maintenance and Operating Expenses of the EG Systems and to pay the debt service requirements on all revenue debt of the EG Systems, including all other payments prescribed in the bond ordinances.

Rate changes over the past 15 years have consisted of a 4.0% combined electric and gas base rate increase effective January 31, 1991; a Large Volume Gas rate effective July 31, 1992, which was offered to Large Gas Customers whose monthly gas usage exceeded 550 MCF per month and enabled them to reduce bills by approximately 8.8%; a Super Large Power ("SLP") electric rate effective January 4, 1994, which reduced the basic rates to customers having loads greater than 5,000 KW per month and annual load factors greater than 41% by approximately 10.1%; and a 3.5% electric base rate adjustment approved by City Council on September 30, 2004. The latter adjustment became effective on May 19, 2005, and was intended to offset the incremental costs to be incurred due to CPS acquiring an additional 12% share in STP. This acquisition was completed in May 2005. CPS projects that the net effect of the rate adjustment and fuel cost savings from additional nuclear-fueled generation will result in lower bills for CPS' electric customers (See "Electric System – Generating System" herein). CPS also offers a monthly contract for renewable energy service (currently this is wind generated electricity) under Rider E15, which became effective in May 2000. The rate for Rider E15 was reduced to its current level effective on September 30, 2002. A rider to the SLP rate, the Economic Incentive Rider E16, became effective March 10, 2003, and offers discounts off the SLP demand charge for a period up to four years for new or added load of at least 10 MW. Under certain conditions, the discount may be extended up to an additional three years. Customers that choose Economic Incentive Rider E16 must also meet City employment targets and targets for purchases of goods or services from local businesses in order to qualify. CPS also has rates that permit recovery of certain miscellaneous customer charges and for extending lines to provide gas and electric service to its customers. In May 2005, the CPS Board adopted a change to its policies for both miscellaneous customer charges and line extensions, to become effective January 1, 2006, to increase charges that had not been raised since 1986. These policies were then sent to the City Council for approval by ordinance. On December 15, 2005, the City Council adopted Ordinance Nos. 101819 and 101820 approving certain of the price changes in the CPS Board-approved policy; however, the City ordinance prevents recovery of increased line extension charges from developers of affordable housing, the City delayed implementation of certain charges until April 1, 2006 (fees for disconnection, reconnection and field notification), and blocked the proposed increase for furnace lighting.

Each of CPS' retail and wholesale rates contains a fuel adjustment clause, which provides for current recovery of fuel costs. The fuel recovery adjustments are set at the beginning of each month.

Transmission Access and Rate Regulation

Pursuant to amendments made by the Texas Legislature in 1995 to the PURA ("PURA95"), Municipal Utilities, including CPS, became subject to the regulatory jurisdiction of the PUCT for transmission of wholesale energy. PURA95 requires the PUCT to establish open access transmission on the interconnected Texas grid for all utilities, co-generators, power marketers, independent power producers, and other transmission customers.

The 1999 Texas Legislature amended the PURA95 to expressly authorize rate authority over Municipal Utilities for wholesale transmission and to require that the postage stamp method be used exclusively for pricing wholesale transmission transactions. The PUCT in late 1999 amended its transmission rule to incorporate fully the postage stamp pricing method. In general, the postage stamp method results in transmission payments to other transmission owners by a compact urban utility like CPS that exceed its receipts from other utilities for their use of its own transmission facilities. CPS' wholesale open access transmission charges are set out in tariffs filed at the PUCT, and are based on its transmission cost of service approved by the PUCT, representing CPS' input to the calculation of the statewide postage stamp pricing method. The PUCT's rule, consistent with provisions in PURA §35.005(b), also provides that the PUCT may require construction or enlargement of transmission facilities in order to facilitate wholesale transmission service. Pursuant to P.U.C. Docket No. 31540, "Proceeding to Consider Protocols to Implement a Nodal Market in the Electric Reliability Council of Texas Pursuant SUBST. R. 25.501," the PUCT has made substantial progress in evaluating shifting from postage stamp pricing to nodal pricing for transmission transactions. Until the PUCT takes final action on nodal pricing, it will not be possible to predict the effects on CPS' transmission costs or its ability to recover costs from other participants in ERCOT.

Electric Utility Restructuring in Texas; Senate Bill 7. During the 1999 legislative session, the Texas Legislature enacted SB 7, providing for retail electric open competition that began in 2002. SB 7 continues electric transmission wholesale open access, which came into effect in 1997 and requires all transmission system owners to make their transmission systems available for use by others at prices and on terms comparable to each respective owner's use of its system for its own wholesale transactions. SB 7 also fundamentally redefines and restructures the Texas electric industry. The following discussion applies primarily to ERCOT.

SB 7 includes provisions that apply directly to Municipal Utilities, such as the CPS electric system, as well as other provisions that govern investor owned utilities ("IOUs") and electric co-operatives ("Electric Co-ops"). As of January 1, 2002, SB 7 allows retail customers of IOUs to choose their electric energy supplier, as well as the retail customers of those Municipal Utilities and Electric Co-ops that elect, on or after that date, to participate in retail electric competition. Provisions of SB 7 that apply to the CPS electric system, as well as provisions that apply only to IOUs and Electric Co-ops are described below, the latter for the purpose of providing information concerning the overall restructured electric utility market in which the electric system could choose to directly participate in the future.

SB 7 required IOUs to separate their retail energy service activities from regulated utility activities by September 1, 2000, and to unbundle their generation, transmission/distribution, and retail electric sales functions into separate units by January 1, 2002. An IOU may choose to sell one or more of its lines of business to independent entities, or it may create separate but affiliated companies, and possibly operating divisions, that may be owned by a common holding company, but which must operate largely independent of each other. The services offered by such separate entities must be available to other parties on a non-discriminatory basis. Municipal Utilities and Electric Co-ops which open their service territories ("opt-in") to competition are not required to, but may, unbundle their electric system components.

The following discussion relates to entities that are currently in electric competition in Texas, and does not apply to CPS, but could apply if CPS was forced in or voluntarily opted-in to competition. Generation assets of IOUs are owned by "Power Generation Companies," which must register with the PUCT and must comply with certain rules that are intended to protect consumers, but they otherwise are unregulated and may sell electricity at market prices. IOU owners of transmission and/or distribution facilities are "Transmission and Distribution Utilities" and are fully regulated by the PUCT. Retail sales activities are performed by "Retail Electric Providers" ("REPs") which are the only entities authorized to sell electricity to retail customers (other than Municipal Utilities and Electric Co-ops within their service areas or, if they have adopted retail competition, also outside their service areas). REPs must register with the PUCT, demonstrate financial capabilities, and comply with certain consumer protection requirements. REPs buy electricity from Power Generation Companies, power marketers, or other parties and may resell that electricity to retail customers at any location in Texas (other than within service areas of Municipal Utilities and Electric Co-ops that have not opened their service areas to retail competition). Transmission and Distribution Utilities and Municipal Utilities and Electric Co-ops that have chosen to participate in competition are obligated to deliver the electricity to retail customers, and all of these entities are required to transport power to wholesale buyers. The PUCT is required to approve the construction of new Transmission and Distribution Utilities' transmission facilities outside the electric system's service territory and may order the construction of new facilities to relieve transmission congestion no matter where those facilities are located. Transmission and Distribution Utilities are required to provide access to both their transmission and distribution systems on a non-discriminatory basis to all eligible customers. Retail rates for the use of distribution systems of Municipal Utilities and Electric Co-ops are exclusively within the jurisdiction of these entities' governing bodies rather than the PUCT.

SB 7 also provides a number of consumer protection provisions. Each service area within Texas that participates in retail competition has a designated "Provider of Last Resort"; those Providers of Last Resort serving in former service areas of IOUs are selected and approved by the PUCT. The Provider of Last Resort is a REP that must offer to sell electricity to any retail customer in its designated area at a standard rate approved by the PUCT. The Provider of Last Resort must also serve any customer whose REP has failed to provide service. Each Municipal Utility and Electric Co-op that opts-in to retail competition may designate itself or another entity as the Provider of Last Resort for its service territory and the respective Municipal Utility or Electric Co-op rather than the PUCT will set the rates for such respective Provider of Last Resort.

Beginning September 1, 1999, each IOU was required to freeze its then existing rates (except for a fuel factor pass through) and was required to continue to serve its retail customers at such rates until 2002. Beginning January 1, 2002, the unbundled REP of the IOU that held the certificate to provide retail service to an area ("Affiliated REP") was required to reduce electric rates by 6% below the frozen rates and offer that reduced rate ("price to beat") to all residential and small commercial retail customers in the area formerly served by the IOU. The Affiliated REP was not allowed to sell electricity to residential or small commercial customers at any other rate until the earlier of either 40% of the residential or small commercial customers in the area had chosen to be served by other REPs or until January 1, 2005. SB 7 does allow Affiliated REPs to compete for industrial customers and for certain aggregated commercial loads owned by a common entity. The price to beat provisions of SB 7 currently has no direct impact on CPS.

Under SB 7, IOUs may recover a portion of their "stranded costs" (the net book value of certain "non-economic" assets less market value and certain "above market" purchased-power costs) and "regulatory assets", which is intended to permit recovery of the difference between the amount necessary to pay for the assets required under prior electric regulation and the amount that can be collected through market-based rates in the open competition market. SB 7 establishes the procedure to determine the amount of IOU stranded costs and regulatory assets. The PUCT has determined the stranded costs, which have been and will be collected through a non-bypassable competitive transition charge collected from the end retail electric users within the IOU's service territory as it existed on May 1, 1999. The charge is collected primarily as an additional component to the rate for the use of the retail electric distribution system delivering electricity to such end user.

IOUs may recover a certain portion of their respective stranded costs through the issuance of bonds, with a maturity not to exceed 15 years, whereby the principal, interest and reasonable costs of issuing, servicing and refinancing such bonds is secured by a qualified rate order of the PUCT that creates the "competitive transition charge". Neither the State of Texas nor the PUCT may amend the qualified rate order in any manner that would impair the rights of the "securitized" bondholders.

Additional Impacts of Senate Bill 7. Municipal Utilities and Electric Co-ops are largely exempt from the requirements of SB 7 that apply to IOUs. While IOUs became subject to retail competition beginning on January 1, 2002, the governing bodies of Municipal Utilities and Electric Co-ops have the sole discretion to determine whether and when to opt-in to retail competition. However, if a Municipal Utility or Electric Co-op has not voted to opt-in, it will not be able to compete for retail energy customers at unregulated rates outside its traditional service territory.

SB 7 preserves the PUCT's regulatory authority over electric transmission facilities and open access to such transmission facilities. SB 7 provides for a transmission system operator (an ISO as previously defined) that is governed by a board comprised of market participants and independent members and is responsible for directing and controlling the operation of the transmission network within ERCOT. The PUCT has designated ERCOT as the ISO for the portion of Texas within the ERCOT area. In addition, SB 7 directs the PUCT to determine electric wholesale transmission open access rates on a 100% "postage stamp" pricing methodology.

The greatest potential impact on CPS' electric system from SB 7 could result from a decision by the City Council and the Board to participate in a fully competitive market, particularly in light of the fact that CPS is among the lowest cost producers of electric energy in Texas. On April 26, 2001, the City Council passed a resolution stating that the City did not intend to opt-in to the deregulated electric market beginning January 1, 2002. However, CPS currently believes that it is taking all steps necessary to prepare for possible competition in the unregulated energy market, should the City Council and the Board make a decision to opt-in.

A decision of the City Council and the Board to participate in full retail competition would permit CPS to offer electric energy service to customers located in areas participating in retail choice that are not presently within the certificated service area of CPS. The City Council and the Board could likewise choose to open the CPS service area to competition from other suppliers while choosing not to have CPS compete for retail customers outside its traditional service area.

As discussed above, Municipal Utilities and Electric Co-ops will also determine the rates for use of their distribution systems after they open their territories to competition, although the PUCT has established by rule the terms and conditions applicable to access to those systems. SB 7 also permits Municipal Utilities and Electric Co-ops to recover their stranded costs through collection of a non-bypassable transition charge from their customers if so determined by such entities through procedures that have the effect of procedures available to IOUs under SB 7. Unlike IOUs, the governing body of a Municipal Utility determines the amount of stranded costs to be recovered pursuant to rules and procedures established by such governing body. Municipal Utilities and Electric Co-ops are also permitted to recover their respective stranded costs through the issuance of bonds in a similar fashion to the IOUs. Any decision by CPS as to the magnitude of its stranded costs, if any, would be made in conjunction with the decision as to whether or not to participate in retail competition.

A Municipal Utility that decides to participate in retail competition and to compete for retail customers outside its traditional service area will be subject to a PUCT-approved code of conduct governing affiliate relationships and anti-competitive practices. The PUCT has established by a standard rule the terms and conditions, but has no jurisdiction over the rates, for open access by other suppliers to the distribution facilities of Municipal Utilities electing to compete at retail. If a Municipal Utility decides to participate in retail competition, its customers are subject to being charged a fee per megawatt hour beginning six months prior to implementation of customer choice. The fee is a contribution to a statewide fund targeted at property tax replacement, low-income programs and customer education.

Among other provisions, SB 7 provides that nothing in the act or in any rule adopted under it may impair any contracts, covenants, or obligations between municipalities and bondholders of revenue bonds issued by municipalities and that nothing in the act may impair the tax-exempt status of municipalities or compel them to use facilities in a manner that violates any bond covenants or other exemption of interest or tax-exempt status. The bill also improves the competitive position of Municipal Utilities by allowing local governing bodies, whether or not they implement retail choice, to adopt alternative procurement processes under which less restrictive competitive bidding requirements can apply and to implement more liberal policies for the sale and exchange of real estate. Also, matters affecting the competitiveness of Municipal Utilities are made exempt from disclosure under the open meetings and open records acts and the right of municipal utilities to enter into risk management and hedging contracts for fuel and energy is clarified.

During its 79th Legislative Session, the Texas Legislature reviewed the mission and performance of the PUCT, as required by the Texas Sunset Act. This Act provides that the Sunset Commission, composed of legislators and public members, periodically evaluate a state agency to determine if the agency is still needed, and what improvements are needed to ensure that tax dollars are appropriately utilized. Based on recommendations of the Sunset Commission, the Texas Legislature ultimately decides whether an agency continues to operate into the future.

The 79th Legislature in its review of the PUCT, reauthorized the agency until 2011. Reforms were enacted to increase the accountability of ERCOT, including added regulatory scrutiny and governance changes that add independence while preserving input from industry experts. An "independent market monitor" selected by and which reports to the PUCT, was institutionalized to help guard against manipulation in the wholesale electric market. No significant, direct impact is anticipated as a result of this legislation.

Post Senate Bill 7 Wholesale Market Design Developments. In the summer of 2003, the PUCT adopted rules requiring that ERCOT transition from a zonal to a nodal wholesale market by October 1, 2006, and requiring that new protocols to accomplish this transition be submitted to the PUCT for review. Implementation of the nodal market will include, among other elements: Since the summer of 2002, in the context of ongoing rulemaking projects, the PUCT and industry stakeholders have been exploring potential modifications to the design and operation of the wholesale electric market. The project initially focused on developing a method to directly assignment of the costs of local transmission congestion to market participants that cause the congestion;, in an effort to eliminate incentives that contribute to the high cost of resolving local congestion. Other issues that surfaced in connection with this initiative resulted in adoption of a rule that allows market participants to self-schedule and bilaterally contract for energy and ancillary services, requires that bids for energy and other services procured by ERCOT in the day-ahead and real-time market be submitted on an individual generating unit basis, provides for direct assignment of costs of resolving all transmission congestion, including local congestion, to the resources that caused the congestion, and initiates a movement toward use of implementation of an integrated, financially binding day-ahead market; and nodal energy prices for resources and zonal energy prices for loads. Consistent with the rule, ERCOT and industry stakeholders have developed and submitted to the PUCT protocols and proposed energy load zones to implement these market design elements, together with an independent cost-benefit analysis. The PUCT in 2005 has reaffirmed its goal intent to implement the nodal market in ERCOT, but modified the implementation date to January 1, 2009. of moving toward a nodal market by 2009 and is in the process of determining the procedural mechanisms for accomplishing this change, the nature of any transitional mechanism adopted to mitigate congestion costs affecting some market participants under the new design, and how the costs of implementing the nodal market are to be recovered. In December 2005, the PUCT conducted a hearing on the nodal protocols submitted by ERCOT, and it is expected to render a decision in March 2006. Once a final determination is made by the PUCT, ERCOT will begin its process of design specification and implementation, which will be followed by design specification and implementation by market participants, including CPS. These activities will begin in 2006 and continue through early 2008, followed by integration testing and trials leading to the January 1, 2009 implementation date.

Post Senate Bill 7 Wholesale Market Design Developments. In the summer of 2003, the PUCT adopted rules requiring that ERCOT transition from a zonal to a nodal wholesale market by October 1, 2006, and requiring that new protocols to accomplish this transition be submitted to the PUCT for review. Implementation of the nodal market will include, among other elements: Since the summer of 2002, in the context of ongoing rulemaking projects, the PUCT and industry stakeholders have been exploring potential modifications to the design and operation of the wholesale electric market. The project initially focused on developing a method to directly assignment of the costs of local transmission congestion to market participants that cause the congestion;, in an effort to eliminate incentives that contribute to the high cost of resolving local congestion. Other issues that surfaced in connection with this initiative resulted in adoption of a rule that allows market participants to self-schedule and bilaterally contract for energy and ancillary services, requires that bids for energy and other services procured by ERCOT in the day-ahead and real-time market be submitted on an individual generating unit basis, provides for direct assignment of costs of resolving all transmission congestion, including local congestion, to the resources that caused the congestion, and initiates a movement toward use of implementation of an integrated, financially binding day-ahead market; and nodal energy prices for resources and zonal energy prices for loads. Consistent with the rule, ERCOT and industry stakeholders have developed and submitted to the PUCT protocols and proposed energy load zones to implement these market design elements, together with an independent cost-benefit analysis. The PUCT in 2005 has reaffirmed its goal intent to implement the nodal market in ERCOT, but modified the implementation date to January 1, 2009. of moving toward a nodal market by 2009 and is in the process of determining the procedural mechanisms for accomplishing this change, the nature of any transitional mechanism adopted to mitigate congestion costs affecting some market participants under the new design, and how the costs of implementing the nodal market are to be recovered. In December 2005, the PUCT conducted a hearing on the nodal protocols submitted by ERCOT, and it is expected to render a decision in March 2006. Once a final determination is made by the PUCT, ERCOT will begin its process of design specification and implementation, which will be followed by design specification and implementation by market participants, including CPS. These activities will begin in 2006 and continue through early 2008, followed by integration testing and trials leading to the January 1, 2009 implementation date.

Environmental Restrictions of Senate Bill 7. SB 7 contains specified emissions reduction requirements for certain older electric generating units which would otherwise be exempt from the Texas Commission on Environmental Quality ("TCEQ") permitting program by virtue of "grandfathered" status. Under SB 7, annual emissions of nitrogen oxides ("NO_x") from such units are to be reduced by 50% from 1997 levels, beginning May 1, 2003, and reported on a yearly basis. The requirements may be met through an emission allowances trading program that has been established by the TCEQ on a regional basis. The requirements may be met through an emission allowances trading program that has been established by the TCEQ on a regional basis. CPS applied for State permits from the TCEQ, as required for five CPS generating stations, comprising 12 gas-fired units, and the permits are now final. One of those units, Mission Road, was retired in late 2003. The NO_x reductions required for

SB 7 have been met for the first and second compliance years and NO_x emissions have been reduced by over 50% system-wide from baseline levels. CPS may require future additional expenditures for emission control technology.

Although SB 7 instituted many of the changes to environmental emission controls which affect grandfathered electric generating plants, another TCEQ regulation, Chapter 117, is directed at all units, including CPS' coal plants. These regulations require a 50% reduction in NO_x emissions beginning May 1, 2005, system-wide on an annual basis. CPS power plants are currently subject to the Chapter 117 cap and will report yearly emissions starting in 2006 for the period of May 1, 2005 to May 1, 2006. In addition, as a result of JK Spruce Plant Unit 2 ("JKS 2") air permitting process, CPS has committed to tighter NO_x emission limitations than what is required under Chapter 117 at the Calaveras Lake site once the JKS 2 unit comes on line. The final Clean Air Interstate Rule has imposed even more NOx restrictions on CPS power plants Changes to environmental emission controls may have the greatest effect on coal plants. For example, mercury emission limits have been finalized by EPA, which may require new controls at the coal plants in the near future. Further statutory changes and additional regulations may change existing cost assumptions for electric utilities. While it is too early to determine the extent of any such changes, such changes could have a material impact on the cost of power generated at affected electric generating units.

Response to Competition

Strategic Planning Initiatives. CPS has a comprehensive corporate strategic plan that is designed to make CPS more efficient and competitive, while delivering value to customers and the City. On August 22, 2005, the CPS Board approved a new strategic plan, developed by a cross functional team. The plan builds on the CPS mission, vision, and core values as well as long-term goals adopted in 2004, as part of the Vision 2020 process. The plan focuses efforts on five areas – growth, organization development, business information, process improvement, and transition to competition.

Mission statements, strategic objectives, strategies and metrics and targets are an integral part of each business plan. Major initiatives and key action plans necessary to accomplish the objectives and meet or exceed the targets are also included in each plan. Status reports are provided to the Board and senior management on a quarterly basis. A new position, Strategic Planning Manager, has been created to lead the development of changes to our current strategy.

Debt and Asset Management Program. CPS has developed a debt and asset management program (the "Debt Management Program") for the purposes of lowering the debt component of energy costs, maximizing the effective use of cash and cash equivalent assets, and enhancing financial flexibility. An important part of the Debt Management Program is debt restructuring through the prudent employment of variable rate debt and interest rate swap contracts. It is anticipated, however, that the variable rate exposure of CPS will not exceed 25% of total outstanding debt. The program also focuses on the use of unencumbered cash and available cash flow to redeem debt ahead of scheduled maturities as a means of reducing outstanding debt. The Debt Management Program is designed to lower interest costs, fund strategic initiatives, and increase net cash flow.

Electric System

Generating System. CPS operates 19 electric generating units, three of which are coal-fired and 16 of which are gas-fired. Some of the gas-fired generating units may also burn fuel oil, which provides greater fuel flexibility and reliability. With the acquisition of an additional 300 MW purchased from AEP Texas Central Company ("TCC"), as of May 19, 2005, CPS also has a 40.0% interest in STP's two nuclear generating units. When both units of STP operate as planned, they supply approximately one-third of CPS' annual electric load. The nuclear units supplied 33.9% of the electric system load during fiscal year 2005-2006.

On September 30, 2004, CPS received approval for a change in the amount it charges for retail and certain wholesale rates, which went into effect in late May 2005. This $41 million base rate adjustment was designed to support the issuance of the Junior Lien Revenue Bonds, Series 2004 and the increase in CPS' share of operation and maintenance expenses at STP. (See "Retail Service Rates").

STP Participant Ownership - Participants in the STP and their shares therein are as follows (MW capacity are approximations):

Participants	Ownership %	Ownership MW
Texas Genco, LP[1]	44.0	1,127.5
City Public Service	40.0	1,025.0
City of Austin - Austin Energy	16.0	410.0
	100.0	2,562.5

1 On October 2, 2005, NRG Energy ("NRG"), headquartered in Princeton, New Jersey, announced that it had entered into an agreement to acquire all the outstanding equity of Texas Genco LLC, the parent of Texas Genco LP, along with Texas Genco LLC's other generating assets. NRG completed this acquisition and closed on this transaction on February 2, 2006.

STP is maintained and operated by a non-profit Texas corporation ("STP Nuclear Operating Company") financed and controlled by the owners pursuant to an operating agreement among the owners and STP Nuclear Operating Company. Currently, a four-member board of directors governs the STP Nuclear Operating Company, with each owner appointing one member to serve with the STP Nuclear Operating Company's chief executive officer. All costs and output continue to be shared in proportion to ownership interests.

STP Units 1 and 2 each have a 40-year NRC license that expires in 2027 and 2028, respectively. No firm decision has been made with respect to license extension; however, under NRC regulations, the STP owners may not make a license extension request until the plant licenses are within 20 years of the license expiration date.

During the twelve-months ended January 31, 2006, the STP Units 1 and 2 operated at approximately 90.1% and 90.6% of net capacities, respectively. Unit 1 completed a normal refueling outage in spring 2005. Unit 2 completed a normal refueling outage in fall of 2005.

Qualified Scheduling Entity. CPS and Texas Genco operated under the Joint Operating Agreement from July 1, 1996 until the termination of that agreement on January 25, 2006. The agreement provided that the two entities jointly dispatch their generating plants (other than STP) in order to take advantage of the most efficient plants and favorable fuel prices to serve the combined loads of both entities and Texas Genco acted as the Qualified Scheduling Entity ("QSE") for scheduling both its and CPS' generation schedules with ERCOT. CPS and Texas Genco shared equally the benefits achieved through joint dispatch of their combined portfolio of power plants.

Due to changes in market conditions and the ERCOT market structure, Texas Genco terminated the agreement. CPS and Texas Genco completed an amicable and planned separation. CPS is now operating as an independent Level 4 QSE representing all of CPS' assets and load.

Transmission System. CPS maintains a transmission network for the movement of large amounts of electric power from the generating stations to various parts of the service area and to or from neighboring utilities as required. This network is composed of 138 and 345 kV lines with autotransformers to provide the necessary flexibility in the movement of bulk power.

Distribution System. The distribution system is supplied by 72 substations strategically located on the high voltage 138 kV transmission system. The central business district of the City is served by nine underground networks, each consisting of four primary feeders operated at 13.8 kV, transformers equipped with network protectors, and both a 4-wire 120/208 volt secondary grid system and a 4-wire 277/480 volt secondary spot system. This system is well designed for both service and reliability.

Approximately 7,580 circuit miles (three-phase equivalent) of overhead distribution lines are included in the distribution system. These overhead lines also carry secondary circuits and street lighting circuits. The underground distribution system consists of approximately 321 miles of three-phase distribution lines, 83 miles of three-phase Downtown Network distribution lines, and 3,738 miles of single-phase underground residential distribution lines. Many of the residential subdivisions added in recent years are served by underground distribution systems. At January 31, 2006, 71,134 street light units were in service. The vast majority of the lights are high-pressure, sodium vapor units.

Gas System

Supply Pressure System. The supply pressure system consists of a network of approximately 200 miles of steel mains that range in size from 4 to 30 inches. The entire system is coated and cathodically protected to mitigate corrosion. The supply pressure system operates at pressures between 50 psig and 274 psig, and supplies gas to 269 pressure regulating stations throughout the gas distribution system which reduce the pressure to between 9 psig and 59 psig for the distribution system. A Supervisory Control and Data Acquisition computer system ("SCADA") monitors the gas pressure and flow rates at many strategic locations within the supply pressure system, and most of the critical pressure regulating stations and isolation valves are remotely controlled by SCADA.

Distribution System. The gas distribution system consists of approximately 4,400 miles of 2 to 16-inch steel mains and 1-1/4 to 6-inch high-density polyethylene (plastic) mains. The distribution system operates at pressures between 9 psig and 59 psig. All steel mains are coated and cathodically protected to mitigate corrosion. The vast majority of the gas services are connected to the distribution system, and the gas normally undergoes a final pressure reduction at the gas meter to achieve the required customer service pressure. Critical areas of the distribution system are remotely monitored by SCADA.

Implementation of New Accounting Policies

For the fiscal year ended January 31, 2005, CPS adopted the provisions of the GASB Statement No. 40, Deposit and Investment Risk Disclosures. On January 31, 2005, the investment policies of CPS and the STP Decommissioning Trust were amended to include specific language requirements associated with GASB Statement No. 40, Deposit and Investment Risk Disclosures. Simultaneously, the guidelines of the Employee Benefit Plans were formalized in writing to also include the language requirements of GASB Statement No. 40. The adoption of this guidance did not affect CPS' financial position or results of operations. However, it did result in additional reporting disclosures that have been incorporated into the financial statements.

Recent Financial Transactions

On October 27, 2005, CPS issued $197,335,000 in revenue refunding bonds. CPS used the funds to refund $200 million in tax-exempt commercial paper notes. This allowed CPS to lock-in a low fixed rate of interest in a rising interest rate environment.

On December 1, 2005, CPS remarketed $157,000,000 of its Series 2004 variable rate demand obligations for a two-year term with approval from the CPS Board and City Council. CPS will pay an interest rate of 3.55% through November 30, 2007 at which time these bonds will be remarketed again.

On January 1, 2006, CPS extended the 2003 Junior Lien Bonds, Standby Bond Purchase Agreement's ("SBPA") expiration date to January 31, 2008 for an annual savings of $112,500.

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City Public Service Historical Net Revenues and Coverage[1]

(Dollars in Thousands)	Fiscal Years Ended January 31,					
	2001	2002	2003	2004	2005	2006
Gross Revenues[2]	$ 1,389,239	$ 1,249,869	$ 1,271,656	$ 1,526,904	$1,473,254	$1,754,927
Maintenance & Operating Expenses	754,146	688,876	740,161	942,471	882,508	1,057,035
Available For Debt Service	$ 635,093	$ 560,993	$ 531,495	$ 584,433	$ 590,746	$ 697,892
Actual Principal and Interest Requirements:						
Senior Lien Obligations[3]	$ 208,567	$ 212,274	$ 211,831	$ 230,250	$ 245,984	$ 256,442
Junior Lien Obligations[4]	$ 0	$ 0	$ 0	$ 2,111	$ 4,386	$ 10,964
Actual Coverage-Senior Lien	3.05x	2.64x	2.51x	2.54x	2.40x	2.72x
Actual Coverage Senior and Junior Lien	3.05x	2.64x	2.51x	2.52x	2.36x	2.61x

[1] Unaudited
[2] Calculated in accordance with the ordinances.
[3] Net of accrued interest where applicable.
[4] Series 2003 Junior Lien Obligations were issued May 15, 2003. Series 2004 Junior Lien Obligations were issued November 18, 2004. Actual interest payments.

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San Antonio Water System

History and Management

In 1992, the City Council consolidated all of the City's water related functions, agencies, and activities into one agency. This action was taken due to the myriad of issues confronting the City related to the development and protection of its water resources. The consolidation provided the City with a singular, unified voice of representation when promoting or defending the City's goals and objectives for water resource protection, planning, and development with local, regional, state, and federal water authorities and officials.

Final City Council approval for the consolidation was given on April 30, 1992 with the approval of Ordinance No. 75686 (the "System Ordinance"), which created the City's water system ("SAWS"), a single, unified system consisting of the former City departments comprising the waterworks, wastewater, and water reuse systems, together with all future improvements and additions thereto, and all replacements thereof. In addition, the System Ordinance authorizes the City to incorporate into SAWS a stormwater system and any other water related system to the extent permitted by law.

The City believes that establishing SAWS has helped to reduce the costs of operating, maintaining, and expanding the water systems and has allowed the City greater flexibility in meeting future financing requirements. More importantly, it has allowed the City to develop, implement, and plan for its water needs through one agency.

The complete management and control of SAWS is vested in a board of trustees (the "SAWS Board") currently consisting of seven members, including the City's Mayor and six persons who are residents of the City or reside within the SAWS service area. With the exception of the Mayor, all SAWS Board members are appointed by the City Council for four-year staggered terms and are eligible for reappointment for one additional four-year term. Four SAWS Board members must be appointed from four different quadrants in the City, and two SAWS Board members are appointed from the City's north and south sides, respectively. SAWS Board membership specifications are subject to future change by City Council.

With the exception of fixing rates and charges for services rendered by SAWS, condemnation proceedings, and the issuance of debt, the SAWS Board has absolute and complete authority to control, manage, and operate SAWS, including the expenditure and application of gross revenues, the authority to make rules and regulations governing furnishing to customers, and their subsequent payment for, SAWS' services, along with the discontinuance of such services upon the customer's failure to pay for the same. The SAWS Board, to the extent authorized by law and subject to certain various exceptions, also has authority to make extensions, improvements, and additions to SAWS and to acquire by purchase or otherwise properties of every kind in connection therewith.

Service Area

SAWS provides water and wastewater service to the majority of the population within the corporate limits of the City and Bexar County, which totals approximately 1.6 million residents. SAWS employs approximately 1,600 personnel and maintains over 9,600 miles of water and sewer mains.

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Historical Water Consumption (Million Gallons) [1]

Fiscal Year Ended	Daily Average	Peak Day	Peak Month	Metered Usage	Metered Water Revenue
05/31/2001	155	267	July	53,047	73,166,293
12/31/2001 [2]	159	274	July	53,077	74,541,211
12/31/2002	143	222	August	51,850	77,801,600
12/31/2003	150	303	August	50,576	76,913,150
12/31/2004	144	295	August	49,366	77,113,717
12/31/2005	172	278	July	55,005	98,869,037

[1] Unaudited.
[2] On April 3, 2001, the SAWS Board approved the changing of the fiscal year from a year-end of May 31 to December 31. Report is for the twelve (12) months ending December 31, 2001.
Source: SAWS.

Water Consumption by Customer Class (Million Gallons) [1]

	December 31, 2005	December 31, 2004	December 31, 2003	December 31, 2002	December 31, 2001 [2]	May 31, 2001
Residential	31,114	27,173	27,760	28,372	29,003	28,694
Commercial	12,991	11,746	11,730	11,942	12,371	12,384
Apartment	8,004	7,663	7,794	7,791	7,718	7,783
Industrial	2,122	2,089	2,473	2,696	2,670	2,737
Wholesale	121	99	136	173	531	535
Municipal	652	596	683	876	784	914
	55,005	49,366	50,576	51,850	53,077	53,047

[1] Unaudited.
[2] On April 3, 2001, the SAWS Board approved the changing of the fiscal year from a year-end of May 31 to December 31. Report is for the twelve (12) months ending December 31, 2001.
Source: SAWS.

SAWS System

SAWS includes all water resources, properties, facilities, and plants owned, operated, and maintained by the City relating to supply, storage, treatment, transmission, and distribution of treated potable water, chilled water, and steam (collectively, the "waterworks system"), collection and treatment of wastewater (the "wastewater system"), and treatment and recycle of wastewater (the "recycle water system") (the waterworks system, the wastewater system, and the recycle water system, collectively, the "system"). The system does not include any "Special Projects," which are declared by the City, upon the recommendation of the SAWS Board, not to be part of the system and are financed with obligations payable from sources other than ad valorem taxes, certain specified revenues, or any water or water-related properties and facilities owned by the City as part of its electric and gas system.

In addition to the water related utilities that the SAWS Board has under its control, on May 13, 1993, the City Council approved an ordinance establishing initial responsibilities over the stormwater quality program with the SAWS Board and adopted a schedule of rates to be charged for stormwater drainage services and programs. As of the date hereof, the stormwater program is not deemed to be a part of the system.

Waterworks System. The City originally acquired its waterworks system in 1925 through the acquisition of the San Antonio Water Supply Company, a privately owned company. Since such time and until the creation of SAWS in 1992, management and operation of the waterworks system was under the control of the City Water Board. The SAWS' service area currently extends over approximately 561 square miles, making it the largest water purveyor in Bexar County. SAWS serves more than 80% of the water utility customers in Bexar County and provides potable water service to approximately 326,000 customers, which includes residential, commercial, multifamily, industrial, and wholesale accounts. To service its customers, the waterworks system utilizes 24 elevated storage tanks and 35 ground storage reservoirs, of which 9 act as both, with combined storage capacities of 164.28 million gallons. As of 2005, the waterworks system had in place 4,404 miles of distribution mains, ranging in size from 6 to 61 inches in diameter (the majority being between six and 12 inches), and 23,212 fire hydrants distributed evenly throughout the SAWS service area.

Wastewater System. The San Antonio City Council created the City Wastewater System in 1894. A major sewer system expansion program began in 1960 with bond proceeds that provided for new treatment facilities and an enlargement of the wastewater system. In 1970, the City became the Regional Agent of the Texas Commission on Environmental Quality ("TCEQ") (formerly known as the Texas Water Commission and the Texas Water Quality Board). The Regional Agent Boundary encompasses approximately 360 square miles within Bexar County. In 1992, the wastewater system was consolidated with the City's waterworks and recycle water system to form the System.

SAWS serves the residents of the City, 18 governmental entities, and other customers outside the corporate limits of the City. As Regional Agent, SAWS has certain prescribed boundaries that currently cover an area of approximately 403 square miles. SAWS also coordinates with the City for wastewater planning for the City's total planning area, extra-territorial jurisdiction ("ETJ"), of approximately 956 square miles. The population for this planning area is approximately 1.2 million people. SAWS currently provides wastewater services to approximately 354,900 customers.

In addition to the treatment facilities owned by SAWS, there are six privately owned and operated sewage and treatment plants within the San Antonio ETJ.

The wastewater system is composed of approximately 5,237 miles of mains; three major treatment plants (Dos Rios, Leon Creek and Salado Creek); and a smaller treatment plant (Medio Creek). The three major plants are activated sludge facilities and the small plant is an extended aeration plant. SAWS holds Texas Pollutant Discharge Elimination System wastewater discharge permits, issued by the TCEQ for each of these four plants which have a combined treatment capacity of 225.7 million gallons per day. In addition, SAWS operates and maintains several small satellite facilities that vary in number and are temporary, pending completion of interceptor sewers that will connect the flow treated at such facilities to the wastewater system. The permitted flows from the wastewater system's four regional treatment plants represent approximately 98% of the municipal discharges within the ETJ.

Recycling Water System. SAWS is permitted to sell Type I (higher quality) recycled water from its wastewater treatment plants, and has been doing so since 2000. The recycle system is comprised of two north/south transmission lines and an interconnecting line that will be operational in the spring of 2006. Current capacity is 35,000 acre-feet.

Chilled Water and Steam System. SAWS owns and operates eight thermal energy facilities providing chilled water and steam services to governmental and private entities. Two of the facilities, located in the City's downtown area, provide chilled water and/or steam service to 23 customers. Numerous City facilities that include the Convention Center and Alamodome constitute approximately 75% of the downtown system's chilled water and steam annual production requirements. The remaining six thermal energy facilities, owned and operated by SAWS, provide chilled water and steam services to large industrial customers located in the KellyUSA industrial area on the City's west side. Additionally, under a Memorandum of Agreement with the Brooks Development Authority, SAWS provides operational and maintenance services for the Brooks City-Base central thermal energy facility and two small satellite sites. Together, chilled water and steam services produced $13,370,759 in revenues in fiscal year 2005.

Stormwater System. In September 1997, the City created its Municipal Drainage Utility and established its Municipal Drainage Utility Fund to capture revenues and expenditures for services related to the management of the municipal drainage activity in response to EPA-mandated stormwater runoff and treatment requirements. The City, along with SAWS, has the responsibility, pursuant to the "Authorization to Discharge under the National Pollutant Discharge Elimination System" (the "Permit"), for water quality monitoring and maintenance. The City and SAWS have entered into an interlocal agreement to set forth the specific responsibilities of each regarding the implementation of the requirements under the Permit. The approved annual budget for the SAWS share of program responsibilities for fiscal year 2006 is $3,447,599, for which SAWS is reimbursed $3,056,345 from the stormwater utility fee imposed by the City.

Water Supply

Until recently, the City obtained nearly all of its water from the Edwards Aquifer. The Edwards Aquifer lies beneath an area approximately 3,600 square miles in size. Including its recharge zone, it underlies all or part of 13 counties, varying from five to 30 miles in width, and stretching over 175 miles in length, beginning in Bracketville, Kinney County, Texas, in the west and stretching to Kyle, Hays County, Texas, in the east. The Edwards Aquifer receives most of its water from rainfall runoff, rivers, and streams flowing across the 4,400 square miles of drainage basins located above it.

Much of the Edwards Aquifer region consists of agricultural land, but it also includes areas of population ranging from communities with only a few hundred residents to the City, which serves as a home for well over one million residents. The Edwards Aquifer supplies nearly all the water for the municipal, domestic, industrial, commercial, and agricultural needs in this region. Naturally occurring artesian springs, such as the Comal Springs and the San Marcos Springs, are fed by Edwards Aquifer water and are utilized for commercial, municipal, agricultural, and recreational purposes, while at the same time supporting ecological systems containing rare and unique aquatic life.

The Edwards Aquifer is recharged by seepage from streams and by precipitation infiltrating directly into the cavernous, honeycombed, limestone outcroppings in its north and northwestern area. Practically continuous recharge is furnished by spring-fed streams, with stormwater runoff adding additional recharge, as well. The historical annual recharge to the reservoir is approximately 684,700 acre-feet. The average annual recharge over the last four decades is approximately 797,900 acre-feet. The lowest recorded recharge was 43,000 acre-feet in 1956, while the highest was 2,485,000 acre-feet in 1992. Recharge has been increased by the construction of recharge dams over an area of the Edwards Aquifer exposed to the surface known as the recharge zone. The recharge dams, or flood-retarding structures, slows floodwaters and allows much of the water that would have otherwise bypassed the recharge zone to infiltrate the Edwards Aquifer.

Enhancing the City's Water Supply

The City has relied on the Edwards Aquifer as its sole source of water since the 1800s. Beginning in the 1980s and continuing today, however, the management of the water in the Edwards Aquifer has been the subject of intense scrutiny that has led to both extensive litigation and federal and state agency initiation of regulatory action. In 1993, the Texas Legislature adopted the Edwards Aquifer Authority Act, which created a new regulatory agency to manage withdrawals from the Edwards Aquifer and to protect springflows. This agency, known as the Edwards Aquifer Authority ("EAA"), is charged with preserving and protecting the Edwards Aquifer in an eight-county region including all of Uvalde, Medina, and Bexar counties, plus portions of Atascosa, Caldwell, Guadalupe, Comal, and Hays counties.

Based upon population and water demand projections, along with various regulatory and environmental issues, the City recognizes that additional water sources will be required to supplement withdrawals from the Edwards Aquifer to enable the City to meet its long-term water needs.

SAWS is charged with the responsibility of identifying additional water resources for the City and its surrounding areas. New water resource projects range from optimizing the City's current source through conservation measures, to identification and procurement of completely new and independent water sources. These efforts are guided by SAWS long-term water resource planning process, which commenced in 1998 with the adoption of a 50-year water resource plan. The 1998 plan established mechanisms for formulating and implementing programs to enhance the City's water supply. In October 2000, the City Council created a permanent funding mechanism (the "Water Supply Fee") to be used for water supply development and water quality protection.

The Water Supply Fee is based upon a uniform rate per 100 gallons of water used and is applied to all SAWS customers.

A listing of scheduled water supply fees for years 2001 through 2005 is provided in the following table:

Year	Approved Incremental Charge Per 100 Gallons	Total Approved Charge Per 100 Gallons	Actual Assessment
2001	$ 0.0358	$ 0.0358	$ 0.0358
2002	0.0350	0.0708	0.0708
2003	0.0230	0.0938	0.0844
2004	0.0190	0.1128	0.1100
2005	0.0250	0.1378	0.1378

Source: SAWS, approved by City Council.

On November 17, 2005, the City Council approved the following Water Supply Fee effective January 1, 2006.

Year	Fee Assessed Per 100 Gallons
2006	$ 0.1487

In August 2005, the 1998 plan was updated to incorporate changes in population forecasts, to reflect the achievements gained through SAWS conservation program, and to identify the best portfolio of water supply projects for meeting San Antonio's future needs. Through this process, SAWS determined that the City's water needs can be met through an array of programs, including a critical period management plan, conservation, reuse, non-Edwards Aquifer groundwater, enhanced recharge capabilities, and aquifer storage and recovery among others. Based on the results of this analysis, the SAWS Board of Trustees approved the 2005 update on August 16, 2005 and directed the SAWS staff to:

a. Planning Scenario 2: Service as the regional water provided and contact every independent water retailer in Bexar County to see how SAWS can work with them on their long-term water supply needs.

b. Edwards Supply: Solidify the Edwards Aquifer inventory by converting the approximately 25,000 acre-feet now under lease to permanent ownership, and where possible, seeking an additional 35,000 acre-feet of water rights through either acquisitions or other supply sources.

c. Recharge Initiatives: Actively participate in the Nueces River Basin Feasibility Study and Cibolo Creek Watershed Feasibility Study. Both studies are on-going and contain local and federal partners. In addition, a continued effort will be made with the Edwards Aquifer Authority to activate the recharge credit rules. This project is further described in the section entitled "Edwards Aquifer Recharge Initiatives."

d. Brackish Groundwater: Accelerate the brackish groundwater desalination project. This project will assist in diversifying overall supplies in the medium-term. The project will generate up to a 22,000 acre-feet facility, with the potential to offset summer "peaks." This project is further described in the section entitled "Brackish Groundwater Desalination Project."

e. Regional Carrizo: Accelerate the Regional Carrizo project. Staff should reduce the time for a consultant to perform an independent evaluation of the routing and phasing of this project to three (3) months, quickly reapply for the initial permit, and continue to pursue leases. This project is further described in the section entitled "Regional Carrizo Aquifer Projects."

f. Lower Colorado River Authority-San Antonio Water System: Continue analysis of the feasibility of the Lower Colorado River Authority-San Antonio Water System ("LCRA-SAWS") project. This project is an important option for meeting long-term water needs. However, renegotiation of the existing contract within the project's statutory constraints is necessary to more competitively address cost, control, yield, and the timing of the water delivery. This project is further described in the section herein entitled "Lower Colorado River Authority Project."

g. Simsboro: Withdraw SAWS' participation in the Simsboro project. Terminate the existing contract with Alcoa in accordance with its terms and use. With respect to the SAWS-owned water rights, the staff should explore the possible use or disposition of these rights, as opportunity allows.

h. Lower Guadalupe Water Supply Project: End SAWS' participation in the Lower Guadalupe Water Supply Project due to the continued uncertainty with the surface water and groundwater regulatory environment of the project area.

i. Recycle Water: Develop a recycle water business plan. The business plan will address how to increase our contractual usage, obtain additional contracts, and evaluate the implication of an ordinance what would require mandatory connections for certain customer classes. This project is further described in the section entitled "Water Reuse Program."

j. Aquifer Storage & Recovery: Maximize SAWS' Edwards Aquifer storage and the allowable acreage of SAWS' local Carrizo production. This project is further described in the section entitled "Bexar County Aquifer Storage and Recovery."

k. Other Potential Projects: Continue evaluations of other potential water supply projects, including by not limited to: Coastal Desalination, Recharge and Recirculation, Mesa Water Supply Project, Trinity Aquifer, and the Western Edwards Aquifer water projects.

Combined, these actions enable SAWS to provide affordable, diversified, and sufficient water supplies to meet demand in Planning Scenario 2.

Edwards Aquifer Recharge Initiatives

Recharge Dams are structures that retain rainfall runoff water for short periods of time over the Edwards Aquifer Recharge Zone. Recharge dams retain storm runoff and retain it long enough to allow for a larger volume of water to enter into the Edwards Aquifer. During storm events, storm runoff flows at a faster rate than what can be taken by the recharge features located in the stream channels. The recharge dam allows for a longer retention for more water to filter into the Edwards Aquifer thus increasing recharge amounts.

The Nueces, San Antonio, and Guadalupe River Basins are favorable for development of recharge projects. Of the three basins, the Nueces Basin is the most prolific in terms of recharge effectiveness. With assistance from the U.S. Army Corps of Engineers, studies are currently under way within the Cibolo Creek Watershed and the Nueces River Basin. The results of these studies will identify which sites will have the most potential for recharge enhancement. With the recharge structures tentatively identified, the System is planning on a sustained yield of 13,400 acre-feet per year.

Oliver Ranch and BSR Projects

The System reached a milestone in February 2002 with the introduction of the first non-Edwards Aquifer drinking water supply from the Lower Glen Rose/Cow Creek formation of the Trinity Aquifer in northern Bexar County. The System has contracted for delivery of approximately 5,000-acre feet per year of non-Edwards Aquifer 5groundwater from the Trinity Aquifer from two properties located in northern Bexar County. The construction cost to produce and deliver this water supply is approximately $5.8 million. Initial delivery of water from the Oliver

Ranch project began in February 25, 2002 with BSR production in July 2003. The project was fully operational in June 2004 with the connection of BSR wells 3 and 4 to the System's distribution system.

Western Canyon Project

The System, the San Antonio River Authority ("SARA"), Guadalupe-Blanco River Authority ("GBRA"), and Bexar Metropolitan Water District ("Bexar Met") are working together on the Western Canyon Project for the delivery of water from Canyon Lake. The System will initially receive approximately 8,500 acre-feet per year for service to northern Bexar County. The long-term minimum yield will be 3,950 acre-feet per year. GBRA is required under the contract to divert, treat, and deliver the water to a certain point into the System's delivery system. The permit was issued by the state's regulatory agency, the TCEQ. The project design work has been completed and notice to proceed on construction of various project components took place during the fourth quarter 2004 and first quarter of 2005. Construction of this project is nearing completion, and it is expected that the System will begin receiving water in early 2006.

Brackish Groundwater Desalination Project

The 2005 Update of the System's fifty-year Water Resource Plan includes a recommendation that the System develop a brackish groundwater desalination project. This project involves the development of a moderately sized (up to 22,000 acre-feet) water supply facility with the potential to offset summer "peaks." Hydrologic research on the feasibility of locating this facility in southern Bexar County will begin in December 2005. This analysis will be accompanied by an evaluation of the potential benefit and feasibility of applying innovative procurement methods, such as Design Build Operate and Build Own Operate Transfer strategies to bring this project to on line by 2010.

Regional Carrizo Aquifer Projects

The System is refining plans for delivery and treatment of approximately 20,000 through 56,200 acre-feet of ground water from the Carrizo Aquifer in Gonzales and Wilson Counties. The System is currently undertaking a review process to determine the preferred routing of pipeline associated with the delivery and integration of the Carrizo water into the existing distribution system. Upon completion of this evaluation, which is expected in early 2006, additional construction on this project is scheduled to commence. The project will be developed in phases. The delivery of water from the first phase (22,600 AF) is anticipated in early 2009. Phase II and Phase III are scheduled to be delivered in 2012 and 2016, respectively.

Lower Colorado River Authority Project

The LCRA-SAWS project would conserve and develop up to 330,000 acre-feet of water per year. Of that, approximately 180,000 acre-feet per year of agricultural and other rural water needs would be met in the Colorado basin through conservation of agricultural irrigation water, storage of river water, and supplemental groundwater for agricultural use. Up to 150,000 acre-feet per year of river water would be transferred to the San Antonio area for an eighty-year period.

In February 2001, a Memorandum of Agreement with LCRA outlining the terms for a future binding contract for up to 150,000 acre feet of surface water per year from the Lower Colorado River Basin was signed. That same year, legislation was passed to authorize LCRA to sell water outside its statutory boundary to the System. The System and LCRA have now executed a definitive agreement outlining LCRA's and the System's obligations consistent with the memorandum of Agreement. The System and LCRA are now entering the third year of an estimated seven-year study period to assess the environmental, engineering, and cost impacts.

Bexar County Aquifer Storage and Recovery

An Aquifer Storage and Recovery ("ASR") project involves injecting ground water into an aquifer, storing it and later retrieving it for use. Essentially this is storage that is additionally provided through surface water reservoirs. The System began study of an ASR project in 1996, acquired approximately 3,200 acres in southern Bexar County and has essentially completed the construction of Phase I of the ASR Project. This phase of the project, with a total cost of approximately $125 million, gives the System the capability of injecting and recovering 30 million gallons per day of Edwards Aquifer water and integrating it into SAWS' existing distribution system, Phase II of the ASR Project is designed to increase the injection, storage, and recovery capacity of the project to 60 million gallons per day and extend the integration into SAWS' existing distribution system. This phase of the project is currently underway and is anticipated to be complete by the end of 2007.

This project is primarily designed to optimize use of water from the Edwards Aquifer and reduce frequency and duration of critical periods. Additionally, the ASR project may produce "native" groundwater from the project area for use throughout the service areas. In December 2002, the Evergreen Underground Water Conservation District and the System approved an Aquifer Protection and Management Agreement. This agreement ensures operation of the ASR site if the property is annexed in to the district, manages groundwater production, and commits the System to monitoring water levels and mitigation of potential negative impacts. As of December 2005, approximately 17,000 acre-feet of water has been stored in the ASR facility.

Water Reuse Program

The System has developed a water reuse program utilizing high quality effluent from the wastewater treatment process. The System owns the treated effluent from its wastewater treatment plants and has the authority to contract to acquire and to sell non-potable water inside and outside the System's water and wastewater service area. The water reuse system can provide up to 35,000 acre-feet per year for non-potable uses including large scale irrigation and industrial purposes. Once developed to its maximum planned capacity, the System could convert approximately 20% of SAWS current demand for Edwards aquifer water to non-potable uses, thereby making more Edwards water available for potable use. Currently, approximately 19,000 acre-feet of water is under commitment.

In addition to the 35,000 acre-feet per year for irrigation and industrial non-potable uses, the System currently has a contract through 2030 to provide 45,000 acre-feet per year of reuse water to CPS Energy for cooling of electrical generation systems at Braunig and Calaveras lakes. The combined availability of 80,000 acre-feet per year makes this the largest water reuse system in the country. Under the terms of the contract, CPS Energy holds contingent option rights on an additional 10,000 acre-feet of reuse water. These option rights are broken down into two 5,000 acre-feet increments, with the first such option to be exercised no later than June 30, 2007 and the second such option to be exercised no later than June 30, 2011. The revenues derived from the CPS Energy contract have been excluded from the calculation of Gross Revenues and not included in any transfers to the City.

Conservation

Beginning in 1994, the System progressively implemented aggressive water conservation programs, which have reduced total water production and use by 43.2%, from 213 gallons per person per day ("gaped") in 1994 to approximately 130 gaped in 2004. Given these accomplishments, the 2005 update to the System's fifty-year Water Resource Plan set a new goal for conservation that includes the provision that we reduce per capital consumption to 116 gpcd during normal-year conditions and 122 gpcd during dry-year conditions by 2016. This will be accomplished through a variety of means including implementation of the City's water conservation ordinance (Ordinance 100322, passed January 20, 2005), pricing, education, and rebates for water efficient technologies; and system improvements to prevent water loss and other measures.

Indoor Residential Conservation

Indoor residential conservation programs encourage customers to save water inside their homes. A variety of education and rebate incentive programs assist ratepayers in achieving conservation. One example is the Season to Save Community Challenge, which started as an experimental program to test the idea that non-profit organizations would be effective at motivating ratepayers to participate in toilet distribution programs. An incentive is paid to non-profit organizations for finding qualified customers who pick up free toilets during a distribution event. Non-profit groups also receive a bonus for the conservation achieved by customers they helped qualify for the program. The bonus provides incentives for non-profit representatives to ask their participants to install the new toilets quickly.

Another example of the System's conservation program is Plumbers to People, which provides leak repairs and retrofits to qualified low-income homeowner customers. The System, in cooperation with the City of San Antonio's Community Action Division (CAD), qualifies applicants based on the current Federal Assistance Guidelines. Only leaks that result in a loss of potable water are eligible for repair under this program. Water conservation is achieved by quickly repairing leaks that would otherwise continue due to the cost of repairs. Analysis of program costs and water savings indicate that this affordability program is one of our most effective at conserving water at a reasonable cost per unit.

Customers learn about these programs through the System's website, public events, direct mail inserts in bills, paid advertisements and educational materials in popular local periodicals.

Outdoor Residential Conservation

The System's residential outdoor programs focus on the landscape and irrigation practices of homeowners. Outdoor use can account for up to 50% of total residential water use in the summers and average 20% of the water use annually. Education programs help ratepayers understand how following best practices can save water and money.

Irrigation Check-Ups provide the System's ratepayers with a free analysis of their in-ground irrigation system. Trained Conservation Technicians visit homes to review each component of irrigation systems to determine maintenance needs to make suggestions for improving efficiency.

Seasonal Irrigation Program ("SIP") is a free information service provided to customers who want expert advice on how to water their lawns. The irrigation advice is based on evapotranspiration ("ET") data calculated from a local weather station. Horticulture experts from the Texas Cooperative Extension use the ET data to make weekly irrigation recommendations for recommended grass varieties. Customers receive the advice through e-mail, recorded phone message, the local newspaper, a SIP hotline, or the System's web site.

WaterSaver Landscape Rebate guidelines were changed in 2003 to address concerns that the old program was not maximizing water conservation opportunities. Program changes included the requirement that the entire landscape be drought tolerant, a maximum 50% of landscape in grass, and a mandatory irrigation system check if an irrigation system was present. Higher rebates were given to customers who preserved native landscape during home construction or who did not install a permanent irrigation system. An incentive to meet water conservation expectations was included in the program as well. Customers using a reasonable amount of water during the first year after getting their rebate will receive a small nursery gift certificate. This program is marketed through neighborhood associations, local nurseries, the Garden Volunteers of South Texas and through the Greater San Antonio Builder's Association.

Commercial and Industrial Programs

The System has been working closely with commercial customers to help them conserve water for several years. In 1998, the commercial and industrial programs were expanded to include the toilet retrofit rebates previously offered only to residential customers. Water audits and case-by-case rebates for large-scale retrofits are also available. Since 1996, car wash businesses that meet certain conservation criteria are certified and provided a sign to be posted on their place of business. Every year the System presents the WaterSaver Awards to recognize businesses, organizations, and/or individuals that voluntarily initiated water conservation practices.

Agricultural Conservation and Irrigation Efficiency

The System has been successful in developing partners throughout the region as well as with federal agencies through cost-share programs. The amount of $500,000 for fiscal year has been appropriated by the United States Department of Agriculture ("USDA") for the Edwards Aquifer region to assist landowners with agricultural irrigation efficiencies. The System has partnered with the USDA and farmers to acquire efficient irrigation systems in exchange for Edwards Aquifer water rights. The System is also currently working with the United States Army Corps of Engineers, the Natural Resource Conservation Service and other local sponsors on programs designed to enhance recharge of the Edwards Aquifer through impoundment structures and brush management.

Capital Improvement Plan

The following is a proposed five-year Capital Improvement Program for SAWS. It is the intention of SAWS to fund the program with tax-exempt commercial paper, impact fees, system revenues, and future bond issues. SAWS budgeted the following capital improvement projects during calendar year 2006:

- $2 million is budgeted for the wastewater treatment program to repair, replace, upgrade, or expand treatment facilities;
- $28 million is budgeted for the wastewater collection program to fix deteriorated components of the collection system ;
- $19 million is budgeted to replace sewer and water mains;
- $44 million is budgeted for the governmental replacement and relocation program;
- $2 million is budgeted to construct new production facilities; and
- $79 million is budgeted for water supply development, water treatment, and water transmission projects for new sources of water.

SAWS anticipates the following capital improvement projects for the five fiscal years listed:

	Fiscal Year Ended December 31,					
	2006	2007	2008	2009	2010	Total
Heating and Cooling	$ 250,000	$ 950,000	$ 800,000	$ 900,000	$ 300,000	$ 3,200,000
Water Delivery	51,059,000	52,920,475	54,508,090	56,143,332	57,827,632	272,458,529
Wastewater	65,306,641	63,778,525	65,691,880	67,662,637	69,692,516	332,132,199
Water Supply	82,269,000	73,480,000	101,640,000	88,106,700	98,734,900	444,230,600
Total	$ 198,884,641	$ 191,129,000	$ 222,639,970	$ 212,812,669	$ 226,555,048	$ 1,052,021,328

Source: SAWS. Project Funding Approach

The following table was prepared by SAWS staff based upon information and assumptions it deems reasonable, and shows the projected financing sources to meet the projected capital needs.

	Fiscal Year Ended December 31,					
	2006	2007	2008	2009	2010	Total
Revenues	$ 26,538,876	$ 50,262,978	$ 24,160,707	$ 28,296,775	$ 38,560,669	$ 167,820,005
Impact Fees	16,708,486	9,899,773	10,048,270	10,198,994	10,351,979	57,207,502
Debt Proceeds	155,637,279	130,966,249	188,430,993	174,316,900	177,642,400	826,993,821
Total	$ 198,884,641	$ 191,129,000	$ 222,639,970	$ 212,812,669	$ 226,555,048	$ 1,052,021,328

Source: SAWS.

Recent Financial Transactions

In December 2005, SAWS issued $298,220,000 “City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 2005”, to advance refund the “City of San Antonio, Texas Water System Revenue and Refunding Bonds, Series 1999” and certain outstanding commercial paper notes.

San Antonio Water System Summary of Pledged Revenues for Debt Coverage [1]

	Fiscal Year Ended December 31, 2005	Fiscal Year Ended December 31, 2004	Fiscal Year Ended December 31, 2003	Fiscal Year Ended December 31, 2002	12 Months Ended December 31, 2001
Revenues					
Water System	$ 93,419,939	$ 72,888,054	$ 65,163,910	$ 58,873,352	$ 79,451,701
Water Supply	108,045,245	78,546,461	76,044,416	76,167,052	36,684,084
Wastewater System	113,333,959	99,224,713	87,683,794	89,312,338	87,438,542
Chilled Water and Steam	13,370,759	12,027,528	12,193,646	10,871,599	12,899,862
Non Operating Revenues	11,167,861	7,060,677	7,308,979	7,547,353	15,103,714
Adjustments for Pledged Revenues	(6,668,991)	(5,437,557)	(5,591,341)	(7,583,370)	(5,911,934)
Total Revenues	$332,668,772	$264,309,876	$242,803,404	$235,188,324	$225,665,969
Maintenance and Operating Expenses	$173,489,890	$153,859,964	$152,742,554	$138,212,615	$134,616,252
Net Available for Debt Service	$159,178,882	$110,449,912	$ 90,060,850	$ 96,975,709	$ 91,049,717
Maximum Annual Debt Service Requirements - Total Debt[3]	$ 94,992,353	$ 84,941,122	$ 76,075,114	$ 66,267,591	$ 65,767,934
Maximum Annual Debt Service Requirements - Senior Lien Debt[3]	$ 78,372,649	$ 67,203,188	$ 61,511,375	$ 61,511,375	$ 55,236,354
Coverage of Total Debt	1.68 X	1.30 X	1.18 X	1.46 X	1.38 X
Coverage of Senior Lien Debt	2.03 X	1.64 X	1.46 X	1.58 X	1.65 X

1 Unaudited.
2 On April 3, 2001, the SAWS Board approved the changing of the fiscal year from a year-end of May 31 to December 31. Report is for the twelve (12) months ending December 31, 2001.
3 As of the end of the fiscal year shown, excludes Tax Exempt Commercial Paper.
Source: SAWS.

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The Airport System

General

The City's airport system consists of the San Antonio International Airport (the "International Airport" or the "Airport") and Stinson Municipal Airport ("Stinson") (the International Airport and Stinson, collectively, the "Airport System"), both of which are owned by the City and operated by its Department of Aviation (the "Department").

The International Airport, located on a 2,600-acre site that is adjacent to Loop 410 and U.S. Highway 281, is approximately eight miles north of the City's downtown business district. The International Airport consists of three runways with the main runway measuring 8,502 feet and able to accommodate the largest commercial passenger aircraft. Its two terminal buildings contain 24 second-level gates. Presently, domestic air carriers providing service to San Antonio are America West, American, Chautauqua, Continental, Continental Express, Delta, Frontier, Midwest, Northwest, Shuttle America, Skywest, Southwest, and United. Mexicana and Aerolitoral are Mexican airlines that provide passenger service to Mexico. The Airport Master Plan design allows for an increase from 24 to 55 gates. It is estimated that current gate facilities are being used at 82% of capacity. A variety of services are available to the traveling public from approximately 245 commercial businesses, including nine rental car companies, which lease facilities at the International Airport and Stinson Municipal Airport.

Stinson, located on a 300-acre site that is approximately five miles southeast of the City's downtown business district was established in 1915 and is one of the country's first municipally-owned airports. An Airport Master Plan for Stinson was initiated in March 2001 to facilitate the development of Stinson and to expand its role as a general aviation reliever to the International Airport. The Texas Department of Transportation accepted the Master Plan in 2002 and has recommended $16.0 million in grant funding for capital improvements over the next ten to fifteen years. The expansion of Stinson's facilities is also needed to take advantage of new, complimentary business opportunities evolving with the synergy between Brooks City Base, KellyUSA, and the Stinson Airport. A Targeted Industries Study was completed in 2003 as part of the master planning process. The study will help facilitate development of Stinson properties through the identification of industries and businesses considered to be compatible for locating at the Stinson Municipal Airport.

Capital Improvement Plan

General. In order to meet future airport capacity requirements, an Airport Master Plan was completed in 1998. This plan made recommendations to expand terminal and airfield capacity in an orderly manner to coincide with projected growth in passengers and aircraft operations. In fiscal year 2002, the City commenced implementation of a ten-year Capital Improvement Plan (the "CIP"). The CIP is scheduled to conclude in fiscal year 2011; however, due to the terrorist attacks of September 11, 2001, the timing of some projects has been adjusted and the ultimate completion of the plan is expected to extend beyond that date. The CIP addresses both terminal and airfield improvements. The CIP includes the removal of the existing Terminal 2, which is over 40 years old, and the addition of two concourses with corresponding terminal space, public parking facilities, roadway improvements, and extension and improvement to runways along with supporting taxiways and aircraft apron. The capital program over the five-year period from 2005 through 2009 addresses primarily terminal-related improvements, parking roadway improvements, and airfield improvements.

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The anticipated sources of funding for the next five years are as follows:

Funding Sources	Anticipated Funding
Federal Grants	
Entitlements	$ 27,054,000
General Discretionary	45,105,000
Noise Discretionary	20,867,000
Passenger Facility Charges ("PFCs")	
Pay-As-You-Go	23,301,000
PFCs Secured Bonds	103,156,000
Other Funding	
Airport Funds	29,596,000
Airport Revenue Bonds	91,526,000
Total – All Sources	$340,605,000

The CIP includes capital improvements, which are generally described as follows:

Improvement	Amount
International Airport	
Terminal/Gate Expansion	$121,389,000
Airfield Improvements	86,695,000
Cargo Facilities	11,368,000
Roadway Improvements	21,855,000
Parking Improvements	46,865,000
Aircraft Apron	22,504,000
Other (Building Imp., Drainage, etc.)	20,818,000
Stinson Airport	9,111,000
Total	$340,605,000

Proposed PFC Projects. Public agencies wishing to impose PFCs are required to apply to the Federal Aviation Administration (the "FAA") for such authority and must meet certain requirements specified in the PFC Act and the implementing regulations issued by the FAA.

The FAA issued a Record of Decision on August 29, 2001 approving the City's initial PFC application. The City, as the owner and operator of the Airport, received authority to impose a $3.00 PFC and to collect approximately $102.5 million in PFCs. On February 15, 2005, the FAA approved an application amendment which increased PFC funding by a net amount of $13,893,537. In addition, on February 22, 2005 the FAA approved the City's application for an additional $50,682,244 in PFCs for 11 new projects.

The City began on November 21, 2001, collecting a $3.00 PFC (less the $0.11 air carrier collection charge) per paying passenger enplaned. A total of approximately $167.1 million in PFC revenues will be required to provide funding for these projects included in the Airport CIP. The City has received PFC "impose and use" authority on all approved projects. The estimated PFC expiration date is April 1, 2016.

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The following projects have been approved as “impose and use”:

Replace RON (remain overnight) Apron
Implement Terminal Modifications
Reconstruct Perimeter Road
Construct New Concourse B
Implement Acoustical Treatment Program
Construct Elevated Terminal Roadway
Upgrade Central Utility Plant
Construct Apron
Install Utilities – Terminal Expansion
Replace Two ARFF Vehicles
Conduct Environmental Impact Statement
Reconstruct Terminal Area Roadway
Install Noise Monitoring Equipment
Terminal and Airfield Security
Install Airfield Electrical Improvements
PFC Development and Administration Costs

Terminal Renovations. A comprehensive terminal renovation project was completed in 2003 to improve the quality of services provided to passengers at the San Antonio International Airport. The project, which cost approximately $29 million, included a completely new appearance to the building interiors and provided state-of-art terminal amenities. Included in the terminal renovations was complete redevelopment of the concessions program that provided high-quality retail and food establishments offering a mix of regional and national brands at street prices. Concession space was expanded from 30,000 square feet to over 40,000 square feet. Through the expansion and reconfiguration of concession space, 85% of retail shops and food outlets are now at airside locations. In total, 42 retail, food, and passenger service contracts were awarded. The new concessions program increased revenues to the Airport from $3.1 million in fiscal year 2002 to $4.3 million in fiscal year 2004. This represented a 39% gain in two years. On a per-boarding passenger basis, concession revenue went from $0.86 in fiscal year 2002 to $1.26 for fiscal year 2004. Following the Airport’s implementation of its new concessions program, it was recognized by the *Airport Revenue News’* “Best Concessions Poll.” The Airport’s concession program was voted for by a panel of judges in the Airport category with less than 4 million enplanements. San Antonio won three first place awards over the last two years. The Airport was honored for having the Terminal with the “Most Unique Services” and “Best Overall Concessions Program” in 2004 and “Best Overall Concessions Program” for 2005. The publication noted the Airport’s high-tech business services, such as high-speed fax and Internet, wireless capabilities and conference rooms. The Best Overall Concessions Program award is given to airports with a convenient customer-friendly layout, good visibility, attractive storefronts, and interesting themes. Also in 2004, *J. D. Power and Associates* announced through its Global Airport Satisfaction Index Study, San Antonio International Airport tied for the highest ranking in customer satisfaction among airports with less than 10 million passengers per year.

Terminal Improvements. The terminal expansion project will include a seven-gate Terminal B and a five-gate Terminal C (expandable up to eleven gates). Terminal B will replace Terminal 2 which is obsolete and will be demolished to make way for Terminal C, as well as further terminal development. Terminal C will be constructed in phases, as passenger growth and demand for gate facilities occur. Ground breaking for Terminal B is expected to take place in the spring of 2006. The present Terminal will become Terminal A.

Airfield Improvements. To implement the Master Plan airfield recommendations an Environment Impact Statement (“EIS”) will be required to assess the environmental impacts associated with the capacity enhancing runway/taxiway projects. The EIS process was started by the FAA in 2003; however, depending on the type and timing of the airfield improvements, the initial environmental work may be accomplished through an Environmental Assessment. Public involvement throughout the process is essential to the successful completion of these projects. Airport Master Plan projects to be studied as part of the EIS include extension of Runway 3/21 and Taxiways N and Q; reconstruction and upgrade of Runway 12L/30R and associated taxiways from general aviation to air carrier dimensions (of approximately 8,500 feet by 150 feet), as well as the installation of an instrument landing system.

In order to improve the International Airport's compatibility with its neighbors, two projects have been initiated. In October 2003, work on the installation of a Noise and Operations Monitoring System ("NOMS") began. Federal Airport Improvement Program ("AIP") grant funds will pay for 80% of the NOMS project, with the balance being provided by Airport System self-generated monies. The NOMS is composed of two main systems. These include noise monitoring and flight operations monitoring. The NOMS will closely track aircraft noise exposure in and around particular Airport area neighborhoods or homes and allow the Aviation Department to monitor and implement current and future noise abatement measures. Installation of the NOMS was completed in 2004. The second compatibility project is a Land Use Study which was initiated to assist the City in planning and zoning for future development. Funded in part (80%) by a federal AIP grant, this Study will establish guidelines for managing compatible land uses in areas surrounding the International Airport and Stinson. This Study, which is to be based on existing airport/airfield configurations, includes a public involvement process, which began in the third quarter of 2004.

Parking Improvements. The International Airport operates and maintains approximately 5,810 parking spaces and 1,230 employee parking spaces for a total of 7,040 parking spaces. A parking study was developed in 2001 for the International Airport by AGA Consulting, Inc. The study indicated that projected peak period demand for airport parking will exceed the available supply by the end of 2006. It is estimated that 2,400 additional parking spaces will be required to satisfy projected demand over the next ten years. Future requirements for vehicle parking are currently being addressed with the design of a new garage. The design work is underway with groundbreaking for a new five-story garage, with approximately 2,260 long-term spaces and 660 short-term spaces, planned for the spring of 2006. The associated costs are included in the CIP.

Cargo Improvements. The International Airport has two designated cargo areas: The West Cargo Area, which was constructed in 1974 and refurbished in 1990, and the East Cargo Area, which was completed in 1992 and expanded in 2003. The East Cargo Area is specifically designed for use by all-cargo, overnight-express carriers. Custom-built cargo facilities in the East Cargo Area are leased to Airborne Express and Federal Express, while Eagle Global Logistics constructed a processing facility in the year 2000. In 2005, UPS expanded its facilities by relocating from the West Cargo area to the East Cargo Area. A new belly freight facility is currently under design. Additional land has been allocated to accommodate future growth and an expansion of facilities is currently planned. Foreign trade zones exist at both cargo areas. Enplaned and deplaned cargo for 2004 totaled 133,383 tons.

Airport Operations

General. The City is responsible for the issuance of revenue bonds for the Airport System and preparation of long-term financial feasibility studies for Airport System development. Direct supervision of airport operations is exercised by the Department. The Department is responsible for (i) managing, operating, and developing the International Airport, Stinson, and any other airfields which the City may control in the future; (ii) negotiating leases, agreements, and contracts; (iii) computing and supervising the collection of revenues generated by the Airport System under its management; and (iv) coordinating aviation activities under the FAA.

The International Airport has its own police and fire departments on premises. The firefighters are assigned to duty at the Airport from the City's Fire Department, but their salaries are paid by the Department as an operation and maintenance expense of the Airport System.

The FAA has regulatory authority over navigational aid equipment, air traffic control, and operating standards at both the International Airport and Stinson.

The passage of the Aviation and Transportation Security Act ("ATSA") in November 2001, created the Transportation Security Administration ("TSA"). The Department has worked closely with the TSA to forge a new higher level of security for the traveling public. TSA employs about 300 individuals at the International Airport to meet the new federal security requirements.

The International Airport's explosive detection screening equipment is currently located in the ticket lobby areas of the two terminals. However, the Department is working with the TSA to relocate all baggage screening equipment behind the terminals in new baggage handling systems planned as part of the upcoming Terminal Expansion Project. The City entered into an agreement with the TSA for reimbursements up to $425,800 for the costs associated with the use of Airport police officers at the Airport security screening checkpoints in each terminal. The Department also utilizes four Explosive Detection Canine teams. The police officers, assigned with their dogs, provide additional coverage for detection of explosive materials at the Airport in the baggage pickup areas, concourses, parking, cargo, and aircraft. This program is supported by the TSA with reimbursement to the Airport System at $160,500. The International Airport's coverage is provided in addition to canine support received from the City's Police Department and the Bexar County Sheriff's Office.

The Department has continued to work to improve its security measures. The FAA approved a grant application (80% AIP funding) in 2004 to conduct a security assessment of the International Airport's security program. This project includes an inventory of the existing security measures and an evaluation based on current and anticipated provisions of the ATSA. Recommendations for security enhancements and upgrades could include items such as perimeter fencing, air operations area access points, cargo/belly freight facilities, terminals, fueling areas, concession deliveries, and air traffic control tower.

Stinson is the second oldest continuously operating airport in the United States, and is the FAA's designated general aviation reliever airport to the International Airport. During 2001, a process was initiated to develop a new Airport Master Plan for Stinson, which was completed in 2002. The Master Plan provides recommendations for airfield and facility improvements needed to meet growing operational demands. The planning effort will facilitate the development of Stinson to expand its role as a general aviation reliever to the International Airport. The Texas Department of Transportation Aviation Division accepted the Master Plan in 2002 and has recommended $16.0 million in grant funding for capital improvements over the next ten to fifteen years. The expansion of Stinson's facilities is also needed to take advantage of new, complimentary business opportunities evolving with the synergy between Brooks City-Base, KellyUSA, and Stinson. A "Targeted Industries Study" was completed in 2003 as part of the master planning process. The study will help facilitate development of Stinson properties through the identification of industries and businesses considered to be compatible for locating at the Stinson.

Financings. On May 5, 2005, the City issued $38,085,000 Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement Bonds, Series 2005.

Comparative Statement of Gross Revenues and Expenses - San Antonio Airport System

The historical financial performance of the Airport System is shown below:

	Fiscal Year Ended September 30				
	2001	2002	2003	2004	2005*
Gross Revenues[1]:	$42,928,794	$42,377,654	$43,930,687	$44,729,251	$47,003,528
Airline Rental Credit	5,209,037	4,468,199	2,612,609	3,486,271	5,423,420
Adjusted Gross Revenues	$48,137,831	$46,845,853	$46,543,296	$48,215,522	$52,426,948
Expenses	(23,612,635)	(22,296,698)	(25,363,607)	(25,127,533)	(26,613,738)
Net Income	$24,525,196	$24,549,155	$21,179,689	$23,087,989	$25,813,210

* Unaudited.
[1] As reported in the City of San Antonio's audited financial statements.
Source: City of San Antonio, Department of Finance.

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Total Domestic and International Enplaned Passengers - San Antonio International Airport

The total domestic and international enplaned passengers on a calendar basis, along with year-to-year percentage change are shown below:

Calendar Year	Total	Increase/ (Decrease)	Percent (%) Change
1996	3,568,328	----	----
1997	3,484,141	(84,187)	(2.36)
1998	3,505,372	21,231	0.61
1999	3,538,070	32,698	0.93
2000	3,647,094	109,024	3.08
2001	3,444,875	(202,219)	(5.54)
2002	3,349,283	(95,592)	(2.78)
2003	3,250,911	(98,372)	(2.94)
2004	3,498,972	248,061	7.63
2005	3,708,351	209,379	5.99

Source: City of San Antonio, Department of Aviation.

Total Enplaned and Deplaned International Passengers - San Antonio International Airport

The total enplaned and deplaned for international passengers on a calendar basis, along with year-to-year percentage change are shown below:

Calendar Year	Total	Increase/ (Decrease)	Percent (%) Change
1996	193,843	----	----
1997	200,965	7,122	3.67
1998	246,902	45,937	22.86
1999	229,397	(17,505)	(7.09)
2000	243,525	14,128	6.16
2001	219,352	(24,173)	(9.93)
2002	201,274	(18,078)	(8.24)
2003	159,576	(41,698)	(20.72)
2004	190,254	31,678	19.86
2005	185,992	(5,262)	(2.76)

Source: City of San Antonio, Department of Aviation.

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Air Carrier Landed Weight - San Antonio International Airport

The historical aircraft landed weight in 1,000-pound units on a calendar year basis is shown below. Landed weight is utilized in the computation of the Airport's landed fee.

Calendar Year	Total	Increase/ (Decrease)	Percent (%) Change
1996	5,555,613	----	----
1997	5,530,247	(25,366)	(0.46)
1998	5,601,616	71,369	1.29
1999	5,778,407	176,791	3.16
2000	5,838,185	59,778	1.03
2001	5,546,561	(291,624)	(5.00)
2002	5,559,018	12,457	0.22
2003	5,390,981	(168,037)	(3.02)
2004	5,416,555	25,574	0.47
2005	5,642,188	225,633	4.17

Source: City of San Antonio, Department of Aviation.

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APPENDIX B

SELECTED PORTIONS OF THE CITY'S COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED SEPTEMBER 30, 2004

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CITY OF SAN ANTONIO

P.O. BOX 839966
SAN ANTONIO, TEXAS 78283-3966

April 19, 2005

To the Honorable Mayor and City Council:

It is my pleasure to present the City of San Antonio's (City) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2004. This report is published to provide the City Council, City staff, our citizens, and other readers with detailed information concerning the financial position and activities of the City.

This document was prepared and is presented by the City's Finance department. Accordingly, City management is responsible for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures.

It should be noted that the public accounting firms KPMG LLP, Leal & Carter PC, and Robert J. Williams, CPA, have audited the basic financial statements contained herein. As reflected in the independent auditors' report, the City's financial statements are presented fairly in all material respects in accordance with generally accepted accounting principles.

The audit of the aforementioned independent auditors was also designed to meet the requirements of the Single Audit Act Amendments of 1996, Office of Management and Budget (OMB) Circular A-133, and the State of Texas Single Audit Circular. The Independent Auditors' Report on the basic financial statements, MD&A (required supplementary information), and required disclosures and schedules are included in the Financial Section of this CAFR. Required reports and schedules mandated by the Single Audit Act Amendments of 1996, OMB Circular A-133, and the State of Texas Single Audit Circular are in separate documents.

THE REPORT

The CAFR is presented in three sections: introductory, financial, and statistical.

- The introductory section contains the transmittal letter, a copy of the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting, the City's organizational chart, and a list of principal officials.

- The financial section includes the Independent Auditors' Report, Management's Discussion and Analysis (MD&A), the basic financial statements, which consist of government-wide and fund financial statements and notes to the financial statements, required supplementary information other than MD&A, and other supplementary information.

- The statistical section consists of selected financial and demographic information presented on a multi-year basis.

- As noted above, included in the Financial Section of the CAFR is the MD&A, which presents a narrative introduction, overview, and analysis of the basic financial statements. This transmittal letter complements the MD&A and should be read in conjunction with it. The City of San Antonio's MD&A can be found immediately following the report of the independent auditors.

THE REPORTING ENTITY AND CITY SERVICES

The City of San Antonio is a home rule city that was incorporated in 1837 and chartered in 1951. It is structured as a Council-Manager form of government with a Mayor and ten Council Members each serving two-year terms, limited to two consecutive terms. San Antonio is located in South Central Texas, approximately seventy-five miles south of the state capital of Austin and serves as the county seat for Bexar County. San Antonians enjoy first-rate medical services, a convenient and efficient airport, an excellent highway system, mild weather, and superb recreation choices, including championship golf courses, theme parks, historical attractions, museums, professional sporting attractions and a lively performing arts environment.

As of September 30, 2004, the City's geographic area was approximately 512.2284 square miles making it one of the largest cities in the United States. The United States Census Bureau cites the City as the second most populated city in the state of Texas and eighth most populated city in the country. The estimated population grew from 1,262,800 in fiscal year 2003 to 1,278,300 in fiscal year 2004, an increase of 1.23%.

Below are further details regarding the City as a reporting entity and public service provider.

Reporting Entity

Pursuant to the reporting standards contained in Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity", as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units - an amendment of GASB Statement No. 14", other related entities are included in the CAFR as blended or discretely presented component units. Blended component units are those entities that are considered as part of the City's operations but are legally separate entities. Those entities are the City of San Antonio Health Facilities Development Corporation, the City of San Antonio Industrial Development Authority, the San Antonio Fire and Police Pension Fund, the San Antonio Fire and Police Retiree Health Care Fund, the City of San Antonio Texas Municipal Facilities Corporation, and the City of San Antonio Texas Starbright Industrial Development Corporation.

Entities that require discrete presentation are the San Antonio Development Agency (SADA), the City of San Antonio Education Facilities Corporation (SAEFC), the Greater Kelly Development Authority (GKDA), the San Antonio Housing Trust Foundation, Inc. (SAHTF), the San Antonio Local Development Company, Inc. dba South Texas Business Fund (SALDC), Brooks Development Authority (BDA), San Antonio Water System (SAWS) and City Public Service (CPS). SAWS and CPS are independently managed, municipally owned utility systems that operate under quasi-independent boards of trustees. For additional details on each of these entities and the basis for their respective presentation in our financial report, please refer to the Financial Section, Note No. 1, entitled "Reporting Entity".

Services

The City provides a vast array of municipal services. These services include but are not limited to fire and police protection, street and sidewalk maintenance, libraries, parks, water and electric services, and solid waste disposal. In addition, the City maintains preventive health services, and facilitates economic and neighborhood development. These services are funded from various sources, which include ad valorem taxes, hotel/motel taxes, sales taxes, grants, user fees, revenues from municipally owned utilities, and bond proceeds.

City services are augmented through non-City agencies and local foundations such as SADA, SAEFC, SAHTF, and SALDC.

ECONOMIC CONDITIONS AND OUTLOOK

As a community, San Antonio has positioned itself for long-term growth and prosperity by successfully following a strategy to diversify its economy and improve quality-of-life for all citizens. City government has played an integral part by implementing "A Strategic Plan for Enhanced Economic Development" through the collaborative efforts of San Antonio, Inc., a group of economic development organizations within San Antonio.

ECONOMIC CONDITIONS AND OUTLOOK (Continued)

The City's economic plan involves further development of San Antonio's major industries, which include biomedical research and health services, international trade and distribution, information technology and security, telecommunications, aerospace, tourism, financial services, automotive manufacturing and the military. Untapped economic opportunities are also a part of the City's economic development plan.

The City is also undertaking on-going infrastructure improvements, neighborhood revitalization, and workforce development initiatives, as well as providing assistance and attraction programs that are geared to businesses of all sizes. Both government and citizens are working toward increasing the caliber of educational and economic opportunities, expanding arts and leisure choices, revitalizing older neighborhoods, and planning for overall growth in San Antonio.

The North American Free Trade Agreement (NAFTA) has enabled the City to capitalize on international trade opportunities by becoming a distribution point and center for companies doing business in Mexico. San Antonio is the closest major U.S. city to Mexico's biggest markets and enjoys close cultural and business ties to that nation.

Following are additional details that provide a more in-depth look at the business climate and local economy for the City of San Antonio.

Business Climate and Local Economy
San Antonio's healthy economy and positive business climate are enhanced by elements key to continued economic growth, such as an advanced telecommunications system, significant recent accomplishments in the area of higher education, and strong workforce development programs. Also enhancing San Antonio's business appeal is the high quality-of-life the City offers and a cost-of-living that is well below the national average. Below is a brief discussion on the City's local economic development activities that will help to ensure its economic sustainability and viability.

KellyUSA
At KellyUSA, a former U.S. Air Force Base, GKDA is transforming the base into a multi-use airport and rail-served business park. As of December 2004, there were 70 tenants (commercial companies and federal agencies) employing over 12,171 people with an average salary of $38,000 and a total economic impact of $2.5 billion per year. Major commercial employers at KellyUSA include Boeing, Lockheed Martin, General Electric, Standard Aero, Pratt & Whitney, Chromalloy, and EG&G.

With 96 percent of the marketable 8.6 million square feet leased, GKDA is now focused on development of new Class A facilities leveraging public and private investment to create more jobs for San Antonio. GKDA has begun Phase II development at KellyUSA to construct another 514,400 square feet of new facilities to accommodate market demand over the next one to three years. This growth is projected to increase the economic impact on San Antonio to over $4.3 billion per year. GKDA is also planning in Phase II to generate some $364 million in investment capital by leveraging City, State, Federal and GKDA funding. Phase II includes key transportation infrastructure projects that will facilitate the development of several facility projects that allow KellyUSA to respond to market demand opportunities. These projects are expected to create employment for an additional 6,400 employees at KellyUSA.

Brooks City-Base
Brooks City-Base is a collaborative effort between the Air Force and the City designed to retain the Air Force missions and jobs at Brooks AFB, improve Air Force mission effectiveness, assist the Air Force in reducing its support operating costs, and promote and enhance economic development on Brooks AFB and in the surrounding community. Both the City and the Air Force are partnering to utilize City incentives and existing Brooks AFB resources to create the Brooks Technology & Business Park, a facility that will foster the development of key targeted industry sectors, such as health services and biotechnology. Brooks Technology & Business Park was officially established on July 22, 2002, with the transfer of the 1,310 acres of land and improvements.

ECONOMIC CONDITIONS AND OUTLOOK (Continued)

Brooks City-Base (Continued)

The City and County are also planning to construct a $24.5 million new Emergency Operations Center at Brooks. Additionally, BDA also recently completed the sale of 62 acres for a major commercial retail development at the northeast end of the park called City-Base Landing. This $50 million investment will bring 500 new jobs to the Southside. The BDA is contracting with Grubb & Ellis, a national real estate developer and property management firm, to manage Brooks Technology & Business Park facilities.

Fort Sam Houston
Fort Sam Houston has also initiated leasing activities to reduce infrastructure costs and pursue asset management opportunities using military facilities. In April 2000, the United States Army (the "Army") entered into a partnership with the private organization, Fort Sam Houston Redevelopment Partners, Ltd. (FSHRP), for the redevelopment of the former Brooke Army Medical Center (BAMC) and two other buildings at Fort Sam Houston. These three buildings, totaling about 500,000 square feet in space and located in a designated historic district, have been vacant for some time and are presently in a deteriorating condition. On June 21, 2001, FSHRP signed a 50-year lease with the Army to redevelop and lease these three properties to commercial tenants. In September 2003, the Army relocated U.S. Army South from Puerto Rico to Fort Sam Houston, bringing approximately 500 new jobs to San Antonio with an annual economic impact of approximately $200 million. To facilitate this relocation, the Army negotiated a lease with the FSHRP to locate U.S. Army South and the Southwest Region Installation Management Agency in the old BAMC.

The continued success of this unique public-private partnership at Fort Sam Houston is critical to assisting the Army in reducing infrastructure support costs, preserving historical assets, promoting economic development opportunities, and generating net cash flow for both the Army and FSHRP. This project supports the City's economic development strategy to promote development in targeted areas of the City, leverage military installation economic assets to create jobs, and assist our military installations in reducing base support operating costs. The Army intends to extend the public-private partnership initiative to include other properties at Fort Sam Houston currently available for redevelopment.

Base Realignment and Closure (BRAC 2005)
In 2005, another round of military base realignment and closures BRAC is scheduled. The community has been proactive in strengthening the value of its military installations through unique initiatives like the Brooks City-Base project and the Fort Sam leasing project. To prepare for BRAC 2005, the City of San Antonio in partnership with the Greater San Antonio Chamber of Commerce and Bexar County, has established the San Antonio Military Missions (SAMM) Task Force. In November 2003, the SAMM Task Force hired an Executive Director and staff to begin developing and implementing a strategy for BRAC 2005 focused on promoting the military value of the community's military assets.

San Antonio Technology Accelerator Initiative (SATAI)
SATAI is a targeted economic development initiative focused on developing an advanced technology economy in the San Antonio region. SATAI's mission is to accelerate the regional technological economy through providing hands-on development of advanced technology start-up companies and assisting established companies in accessing tech-based solutions through Enterprise Services. One of the largest SATAI projects is the coordination of several homeland security initiatives through its leadership of the Southwest Enterprise for Regional Preparedness. SATAI's efforts in this area will lead to several state of the art technologies that will be commercialized through new start-up technology companies.

SATAI has been very successful in becoming a key component in the development of San Antonio's advanced technology economy. For example, SATAI helps companies pursuing venture capital funding prepare for venture capitalist presentations. Statistics indicate that companies completing this preparation program have a 50% chance of receiving funding. Conversely, companies that do not complete this program have a 1-5% chance of receiving funding from venture capitalists. SATAI has also been very successful in attracting the interest of venture capital firms throughout the country to participate in the San Antonio investment market. This has filled a huge void in the community's efforts to develop the advanced technology economy.

ECONOMIC CONDITIONS AND OUTLOOK (Continued)

Aerospace Industry Development

The aerospace industry's annual economic impact to the City is about $2.9 billion. This industry provides over 8,283 jobs, with employees earning annual wages totaling over $320 million. The aerospace industry continues to expand as the City leverages its key aerospace assets, which include San Antonio International Airport, Stinson Municipal Airport, KellyUSA, Randolph AFB, Lackland AFB, and training institutions. Many of the major aerospace industry participants have significant operations in San Antonio, such as Boeing, Lockheed Martin, General Electric, Pratt & Whitney, Raytheon, Cessna, San Antonio Aerospace - a division of Singapore Technologies, Southwest Airlines, American Airlines, Delta, Continental, FEDEX, UPS, and others. The industry in San Antonio is very diversified with continued growth in air passenger service, air cargo, maintenance repair and overhaul (MRO), and general aviation.

San Antonio International Airport (SAT) has added three new non-stop passenger routes in the past 12 months and currently has flights to 28 non-stop destinations, with seasonal charter service to Mexico available during the spring and summer. SAT is currently developing construction plans for a new Terminal B and Parking Garage, with ground breaking expected respectively in the spring and summer of 2005. SAT is also in the process of an Environmental Impact Statement for implementation of proposed airfield capacity enhancement projects recommended in the Airport Master Plan.

Stinson Municipal Airport is at 100% occupancy rate and has a tenant waiting list for facilities. A Stinson Master Plan was approved by the City Council in October 2002. Implementation of the Master Plan recommendations is currently in process pending the successful completion of an Environmental Assessment for certain airfield improvements.

At KellyUSA, the MRO business is strong as tenants such as Boeing and Lockheed Martin continue to secure long-term government contracts. KellyUSA is also working to add air cargo activity as recommended by an Air Cargo Study and Strategic Plan completed in June 2002. This study also provided San Antonio International Airport with an Air Cargo Strategic Plan that includes recommendations on expanding the existing integrator service primarily provided by UPS, FedEx, and Airborne Express.

Brooks Air Force Base 311th Human Systems Wing's School of Aerospace Medicine, long active in research and development related to aviation and human systems, conducts research related to human effectiveness in aviation and is opening a new aircraft sustainability laboratory that will conduct research and development applicable to commercial aviation.

New Business Prospects

As of the third quarter of 2004, the San Antonio Economic Development Foundation, Inc., reported to the City's Economic Development department that it had 107 active business prospects. The new businesses are categorized as business services, transportation equipment, miscellaneous manufacturing, fabricated metal products, food products, and others.

Downtown Development Projects

During 2004, a new 265 all-suites hotel, La Contessa, began construction. A proposal by Drury Inns Southwest, Inc. to redevelop the historic Alamo Bank Building into a Drury Plaza Hotel utilitizing Empowerment Zone facility bonds to partially fund the project has had a positive reception by the City Council. Included in that project is a $1.5 million extension of the Riverwalk at the developer's expense. Construction continued on the 350-room La Quinta Inn & Suites hotel project, which will reshape the downtown skyline. The City also continued its efforts to facilitate the development of a convention headquarters hotel adjacent to the recently enlarged Henry B. Gonzalez Convention Center. The Convention Center Hotel Advisory Board (CCHAB) commissioned a study to recommend financing and development options for this 1000-room hotel. Additionally, La Cascada, a 150-unit condominium project along the San Antonio River is the first high-rise project in the downtown. Sales of housing units have been brisk in anticipation of this project's completion.

ECONOMIC CONDITIONS AND OUTLOOK (Continued)

International Trade

The Directory of San Antonio Exporters and Support Organizations has identified over 500 local companies that export to other nations or provide export assistance.

During FY 03-04 the International Affairs Department worked with 73 international delegations that included 1,578 delegates that visited San Antonio. The department also assisted more than 600 business clients that generated over $27 million in bilateral trade between San Antonio and Mexico for the last 2 years.

As of December 31, 2004 the North American Development Bank (NADB) had authorized loans and grants totaling approximately $695.8 million for the development and financing of 84 infrastructure projects throughout the 10 states that compromise the U.S.-Mexico border region. These projects represent a total investment of approximately $2.33 billion, and are benefiting an estimated 7.8 million border residents in the United States and Mexico.

The NADB has been the catalyst to significant and unprecedented levels of investment in environmental infrastructure along the U.S. Mexico border. NADB participation represents about 30% of the total investment in these projects. Of these, 20 have completed, 52 are currently under construction or in various states of completion and 12 are in the design or bidding stage. In the area of local capacity building, the NADB to date has authorized technical assistance for 163 projects in 77 communities on both sides of the border.

As of the fourth quarter of 2004, the Free Trade Alliance San Antonio through its International Business Development Center, an incubator program for foreign companies, has nine companies enrolled with an economic impact of over $1.5 million for the year.

International Outlook

After five years, the City's International Affairs Department continues to develop an Export Leaders Program that focuses on small to medium size San Antonio companies with a high potential and strong commitment to develop and expand international markets. The San Antonio Export Leaders Program is a competitive eight-month program that offers the tools, training, consultation and coaching necessary for about fifteen companies to be successful in exporting and offers the participants a new export experience. In five years, the program has graduated 57 companies and generated $5.4 million in trade in 2003.

San Antonio continues to develop itself as an INLAND PORT for imports and exports to/from Mexico, Latin America and other regions of the world. This encompasses transportation, manufacturing, and logistics facilities, professional services and value-added services involved in producing, marketing and moving freight within, into and out of the San Antonio area. Over the past twelve years, the City has operated three commercial trade offices in Mexico's three largest cities: Mexico City, Guadalajara, and Monterrey.

The City's commitment to international trade is evidenced in the City's International Center which houses the North American Development Bank, International Conference Center, the Trade Commission of Mexico, Mexican State Trade Offices, the Free Trade Alliance San Antonio, the U.S. Department of Commerce, the City's International Affairs Department and the Convention & Visitors Bureau.

FINANCIAL INFORMATION

Accounting system and budgetary control

The City's accounting system supports an adequate internal control structure. The structure helps to safeguard the City's assets against loss, theft, or misuse. The accounting system provides reliable financial records for preparing financial statements in conformity with generally accepted accounting principles. The internal control structure provides reasonable, but not absolute, assurance that the City's assets are safeguarded. The concept of reasonable assurance first recognizes that the cost of a control should not exceed the benefits likely to be derived. Secondarily, the evaluation of costs and benefits require estimates and judgments by management.

FINANCIAL INFORMATION (Continued)

Accounting System and Budgetary Control (Continued)

Budgetary compliance is a significant tool for managing and controlling governmental activities, as well as ensuring conformance with the City's budgetary limits and specifications. The objective of budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by City Council. Levels of budgetary control, that is the levels at which expenditures cannot legally exceed appropriated amounts, are established by function and activity within individual funds. The City utilizes an encumbrance system of accounting as one mechanism to accomplish effective budgetary control. Encumbered amounts lapse at year-end, however, encumbrances generally are appropriated as part of the following year's budget. For the fiscal year ending September 30, 2003, the Government Finance Officers Association of the United States and Canada ("GFOA") presented an award of Distinguished Budget Presentation to the City.

As demonstrated by the statements and schedules in the Financial Section of this report, the City continues to meet its responsibility for sound financial management. As in the Financial Section, all monetary amounts presented in the remainder of this letter are expressed in thousands, except where noted.

Fiscal Management and Administrative Topics

Pension and Postemployment Retirement Benefits
The City provides pension retirement benefits for its eligible employees through two plans. For uniformed Fire and Police employees, retirement benefits are provided through the Fire and Police Pension Fund, a single-employer defined benefit retirement plan. Contribution and benefit levels are established under State statute. For fiscal year 2004, active members contributed 12.32% of covered payroll, or $24.13 million and the City contributed 24.64%, or $48.04 million.

The City provides all other eligible employees, exclusive of fire and police employees, retirement benefits through the Texas Municipal Retirement System (TMRS), a nontraditional, joint contributory, hybrid defined benefit plan. TMRS is a statewide agent multiple-employer public employee retirement system. Contributions to the system are actuarially determined. The required contribution from City employees is 6%, while the City matches at a rate of approximately 11.63%. Both the City and its covered employees made the required contributions of $23.06 million and $11.95 million, respectively. For additional information on the City's pension plans, see Note 8 in the notes to the financial statements.

With respect to post-employment health benefits, the City provides benefits for all non-uniformed City retirees and for all pre-October 1, 1989 uniformed fire and police retirees. The cost of the program is reviewed annually and actuarially determined costs of medical claims are funded jointly on a pay-as-you-go basis with the City contributing 2/3 and the retirees contributing 1/3 of the cost. As of September 30, 2004, 1,512 retirees were participating in the program and currently there are 6,067 active civilian employees who may become eligible for this program in the future.

The second post-employment health benefit program provides retirement health care benefits for eligible fire and police retirees under the Fire and Police Retiree Healthcare Fund ("Fund"). Contribution and benefits levels are established under the City's collective bargaining agreements with the Fire and Police Unions. The benefits of this plan are financed on a prefunded basis. For fiscal year 2004, the City contributed $16.56 million to the Fund and active employees and retirees contributed $2.5 million. Recent actuarial studies have resulted in different results and indicate that the current contribution levels are not sufficient to amortize the unfunded liability of the Fund. The City continues to review the Fund in order to develop a comprehensive framework for a long-term solution. For additional information on City's post-employment health benefits, please see Note 9, of the notes to the financial statements.

FINANCIAL INFORMATION (Continued)

Fiscal Management and Administrative Topics (Continued)

Employee Benefits Program
The City's Self-Insurance Fund continues to experience increased expenses due to rising health care costs, increased prescription drug costs, increased claims volume and changing employee demographics. The City continues to focus on cost containment programs such as: hospital audits, hospital pre-certification, utilization review, large case management, prescription benefit management, and a preferred provider organization to assist in managing the rising cost of medical care. Such strategies have been effective for the City in managing medical costs in a changing health care industry.

In addition to continuing enhancement of these cost containment programs, the City will seek the services of an outside consultant in 2005 to perform a comprehensive review of the Employee Benefits Programs. To maximize efficiency and ensure competitive medical pricing in the plan, a combined Health and Benefits Request for Proposal (RFP) was released in March of 2004 to consolidate plan administration and improve provider discounts. The total cost savings projected for fiscal year 2005, as a result of the new contract, program changes and increased premiums, is estimated at $8.1 million. In fiscal year 2004, the Employee Benefits Fund had cash and investments in reserve totaling $126,683 and a negative net assets balance of $31.75 million. For additional information on the City's risk and employee benefit programs, please see Note 12, of the notes to the financial statements.

Risk Management Programs
For the seventh time in thirteen years, the Insurance Reserve Fund maintained a positive net assets balance of $4.56 million for the fiscal year 2004. The Workers' Compensation Fund reflected a negative net assets balance of $6.59 million for the fiscal year 2004. The Insurance Reserve and Workers' Compensation Funds carried cash and investments in reserve at September 30, 2004 in the amount of $11.62 million and $4.06 million, respectively.

The Risk Management Division Safety Office has continued aggressive efforts this year to promote Accident Prevention/Loss Control projects. This year 2,347 employees received formal classroom training on a number of subjects, totaling 18,776 classroom hours collectively. Training classes include Defensive Driving, First Aid and CPR, Drug and Alcohol Awareness training for commercial drivers and supervisors, New Employee Safety Orientations, Professional Truck Driving, Supervisor's Accident Investigation training, Hazardous Chemicals training, Ergonomics Awareness, and other specialized training courses.

In addition, the Safety Office continues to improve the quality of safety and health education to serve the needs of all City employees by developing customized training programs and updating training materials and/or training methods. The Safety Office has also provided departments 2,946 hours of technical assistance and one-on-one informal training on a variety of safety and health topics in fiscal year 2004.

Cash and Investment Management
The City's investment policies are governed by state statute and the City's own written investment policies. Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; investment diversification, yield, maturity, and the quality and capability of investment management; and include a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment, and the maximum average dollar-weighted maturity allowed for pooled fund groups. All City funds must be invested consistent with a formally adopted "investment strategy statement" that specifically addresses each fund's investment. Each investment strategy statement will describe strategy objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

The City is authorized to use demand accounts, time accounts, certificates of deposit, and other permissible investments including Obligations of the U.S. Treasury and U.S. Agencies, Obligations of States and Cities, Commercial Paper, Repurchase Agreements, Money Market Funds, and Investment Pools. The City's investment portfolio does not include callable obligations or any derivative products. It is not the City's policy to use derivative products in its portfolio, nor does the City leverage its investments.

FINANCIAL INFORMATION (Continued)

Fiscal Management and Administrative Topics (Continued)

Cash and Investment Management (Continued)

At September 30, 2004, City investment funds were 87.41% invested in obligations of the United States, or its agencies and instrumentalities, and 11.38% invested in a money market mutual fund, with the weighted average maturity of the portfolio being less than one year. The remaining 1.21% of the City's portfolio includes the Convention Center Debt Service Reserve Fund of $8.5 million, which was invested in a fully collateralized repurchase agreement that is fully secured by obligations of the United States or its agencies and instrumentalities. The investments and maturity terms are consistent with State law, and the City's investment policy objectives, which are to preserve principal, limit risk, maintain diversification and liquidity, and to maximize interest earnings. For additional information on Cash and Investments, please see Note 3 of the notes to the financial statements.

Debt Administration

The City utilizes a comprehensive debt management financial planning program (The Debt Management Plan), which is updated annually. The Debt Management Plan is a major component of the City's financial planning. The model projects financing needs while measuring and assessing the cost and timing of each debt issuance. It involves comprehensive financial analysis which utilizes computer modeling, and incorporates variables such as interest rate sensitivity, assessed values changes, annexations, and current ad valorem tax collection rates. Use of this financial management tool has assisted the City in meeting its financing needs by facilitating timely and thorough planning which has allowed the City to capitalize on market opportunities.

Strict adherence to conservative financial management has allowed the City to meet its financing needs while at the same time maintaining its "Aa2", "AA+" and "AA+" bond rating by Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Public Ratings Services, a division of McGraw-Hill Companies, Inc. ("S&P"), and Fitch Ratings ("Fitch") respectively. The positive trend in the City's credit strength is evidenced by S&P's rating upgrade in December 1998 from "AA" to its current "AA+" and Fitch's rating upgrade in October 1999 from "AA" to "AA+". For additional information on the City's long-term debt, please see Note 6 of the notes to the financial statements.

OTHER INFORMATION

Independent Audit

State statutes require that an annual audit by an independent certified public accountant be conducted. The City's Audit Committee selected the accounting firms KPMG LLP, Leal & Carter PC, and Robert J. Williams, CPA in 2002. In addition to meeting the requirements set forth in State statutes, the audit was also designed to meet the requirements of the Single Audit Act Amendments of 1996, OMB Circular A-133, and the State of Texas Single Audit Circular. The Independent Auditors' Report on the basic financial statements, management's discussion and analysis (required supplementary information), required disclosures and schedules is included in the Financial Section of this CAFR. The Independent Auditors' Report along with other required reports and schedules mandated by the Single Audit Act Amendments of 1996, OMB Circular A-133, and the State of Texas Single Audit Circular are in separate documents.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its CAFR for the fiscal year ended September 30, 2003. This was the 28th consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

OTHER INFORMATION

Awards (Continued)

The City of San Antonio Planning Department was recognized by the Texas Chapter of the American Planning Association (APA) with two (2) 2003 Texas APA Planning Awards. The Department received the 2003 Project Planning Award for the Southside Initiative Community Plan. In addition, the Neighborhood Conservation District program was honored with the 2003 Current Planning Award.

The preparation of the City of San Antonio, Texas Comprehensive Annual Financial Report for the fiscal year ended September 30, 2004, was made possible by the dedication and hard work of the Finance Department, particularly the staff of the Accounting Division. Each member of the Department has my sincere appreciation for their contributions to the preparation of this document. In closing, please accept my sincere gratitude to the Mayor and City Council, City Manager, Deputy City Manager, Assistant City Managers, Assistants to the City Manager, and their staff, for their continued support.

Respectfully Submitted,

Milo D. Nitschke
Director
Finance Department

Certificate of Achievement for Excellence in Financial Reporting

Presented to

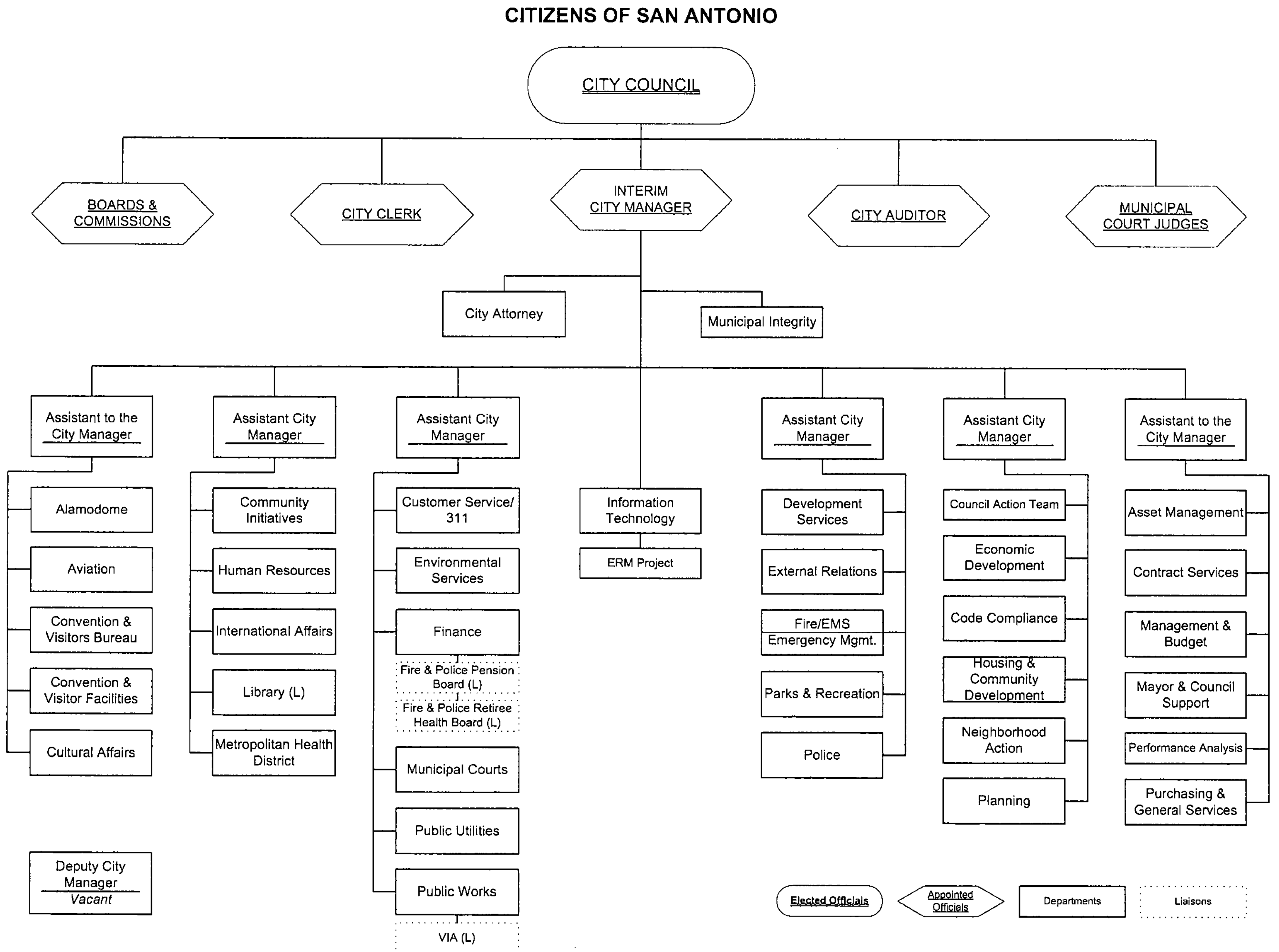
City of San Antonio, Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director



City of San Antonio interim reorganization effective October 7, 2004

CITY OF SAN ANTONIO, TEXAS

Incorporated December 14, 1837 *Charter Adopted October 2, 1951*
Council - Manager Form of Government

CITY COUNCIL
Edward D. Garza, Mayor

Roger O. Flores
Joel Williams
Ron H. Segovia
Richard Perez
Patti Radle
Enrique M. Barrera
Julian Castro
Art A. Hall
Carroll W. Schubert
Christopher Haass

INTERIM CITY MANAGER
J. Rolando Bono

ASSISTANT CITY MANAGER
Christopher J. Brady

ASSISTANT CITY MANAGER
Melissa Byrne Vossmer

ASSISTANT CITY MANAGER
Jelynne LeBlanc Burley

ASSISTANT CITY MANAGER
Frances A. Gonzalez

ASSISTANT TO THE CITY MANAGER
Roland A. Lozano

ASSISTANT TO THE CITY MANAGER
Erik J. Walsh

MEMBER OF THE GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES & CANADA

City of San Antonio
Texas

Financial Section

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City of San Antonio
Texas

Independent Auditors' Report

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KPMG

300 Convent, Suite 1200
San Antonio, TX 78205

RJW

Robert J. Williams
Certified Public Accountant
P.O. Box 34058
San Antonio, TX 78265-4058

LEAL & CARTER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS
11122 Wurzbach Rd. / Suite 200
San Antonio, Texas 78230-2573

Independent Auditors' Report

The Honorable Mayor
and Members of City Council
City of San Antonio, Texas:

We have jointly audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of San Antonio, Texas, as of and for the year ended September 30, 2004, which collectively comprise the City of San Antonio, Texas' basic financial statements as listed in the accompanying table of contents under "Basic Financial Statements." These financial statements are the responsibility of the City of San Antonio, Texas' management. Our responsibility is to express opinions on these financial statements based on our audit. We did not jointly audit the financial statements of certain discretely presented component units and blended component units included in the governmental and fiduciary funds of the City of San Antonio, Texas, which represent the indicated percent of total assets and total revenues as presented in the table below. Those financial statements were audited by other auditors, including KPMG LLP, Robert J. Williams, CPA, and Leal & Carter, P.C., acting separately, whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those component units, are based solely on the reports of the other auditors.

	Percent not jointly audited	
	Total assets	**Total revenue**
Government-wide		
Governmental activities	0%	0%
Business-type activities	0%	0%
Discretely presented component units	100%	100%
Fund statements		
Major funds	0%	0%
Aggregate remaining fund information	75%	32%

	Percent audited by KPMG separately		Percent audited by Leal & Carter separately		Percent audited by Robert J. Williams separately	
	Total assets	**Total revenue**	**Total assets**	**Total revenue**	**Total assets**	**Total revenue**
Government-wide						
Discretely presented component units	72%	82%	1%	1%	72%	82%
Fund statements						
Aggregate remaining fund information	0%	0%	6%	4%	0%	0%

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of San Antonio, Texas, as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 1 through 12, the Budgetary Comparison Schedule on page 119, and Schedules of Funding Progress on page 120 are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We, and the other auditors, have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we, and the other auditors, did not audit this information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of San Antonio, Texas' basic financial statements. The introductory section, the combining financial statements, schedules and other supplementary information, and statistical section are presented for purposes of additional analysis and are not required parts of the basic financial statements. The combining financial statements and schedules and other supplementary information have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP   Robert J. Williams CPA   Leal & Carter, P.C.

April 1, 2005

City of San Antonio
Texas

Management's Discussion and Analysis

(Required Supplementary Information)

(Unaudited)

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of San Antonio (City) presents the following discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2004. This discussion and analysis is intended to assist readers in focusing on significant financial issues and changes in the City's financial position, and identifying any significant variances from the adopted budget. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal and the financial statements provided in this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- The assets of the City exceeded its liabilities by $2,535,564 (net assets). Of this amount, $105,630 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $536,728, an increase of $10,478 compared to the fiscal year 2003 fund balance. The total unreserved fund balance of $317,992 is available for spending at the government's discretion. Of this amount, $39,620 designated and $278,372 is undesignated fund balance.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was $90,410 or 16.9% of the total General Fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as the introduction of the City of San Antonio's basic financial statements which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to private-sector business financial presentation.

The *statement of net assets* is a presentation of the City's assets and liabilities, including capital and infrastructure assets, and long-term liabilities. This statement reports the difference between assets and liabilities as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information regarding increases and decreases to the government's net assets for the fiscal year. Changes in net assets are recorded when the underlying event giving rise to the change occurs regardless of the timing of the cash flows. Therefore, revenues and expenses reported in this statement for some items will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Both government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees or charges (business-type activities). Governmental activities include general government, public safety, public works, sanitation, health services, environmental protection and control, culture and recreation, convention and tourism, conservation, urban redevelopment and housing, welfare and economic development opportunity. The business-type activities of the City include the airport system, parking system, and environmental services.

In addition, the basic financial statements provide information regarding the City's legally separate discretely presented component units. Component unit financial information is reported separately from the primary government in the government-wide financial statements.

Fund Financial Statements

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements are used to present financial information detailing resources that have been identified for specific activities. The focus of the fund financial statements is on the City's major funds, although non-major funds are also presented in aggregate and further detailed in the supplementary statements. The City uses fund accounting to ensure and demonstrate compliance with requirements placed on resources. Funds are divided into three types: governmental, proprietary, and fiduciary. Fund financial statements allow the City to present information regarding fiduciary funds, since they are not reported in the government-wide financial statements.

Governmental funds. Governmental funds are used for essentially the same functions reported in the governmental activities in the government-wide financial statements. However, unlike the government-wide statement, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

As the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented in the governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental fund and governmental activities.

The City of San Antonio maintains five individual governmental funds for financial reporting purposes. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the debt service fund, both of which are considered to be major funds. Data from the other funds are combined into a single, aggregated presentation. Individual fund data for each non-major governmental fund is provided in the form of combining statements elsewhere in this report.

Proprietary funds. The City maintains two types of proprietary funds. *Enterprise funds* are used to report the functions presented in business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its airport, parking and environmental services funds. *Internal service funds* are used to accumulate and allocate costs internally among the City's various functions, including, self-insurance programs, other internal services and information technology services. The services provided by these funds predominantly support the governmental rather than the business-type functions. They have been included within the governmental activities in the government-wide financial statements that are reported alongside the business activities.

Proprietary fund financial statements provide separate and more detailed information for the airport, parking, and environmental services funds. The airport and parking funds are considered major funds of the City while internal service funds are combined into a single aggregated presentation in the proprietary fund financial statements.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the primary government. Fiduciary funds are not reflected in the government-wide financial statements as the resources of those funds are not available to support the City's programs and operations. The accounting for fiduciary funds is much like that used for the proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and the accompanying notes, this report also presents certain required supplementary information on the City's General Fund budget, which is adopted on an annual basis, and schedules of funding progress related to pension and retirement plans. A budgetary comparison statement has been provided for this fund in order to demonstrate budgetary compliance with this budget.

Government-wide Financial Analysis

GASB Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis-for State and Local Governments*, requires that the City provide a comparative analysis of government-wide data. Below is a comparative summary of the governmental activities and business-type activities as required by GASB Statement No. 34:

City of San Antonio, Texas
Statement of Net Assets
For the Year Ended September 30, 2004
(With Comparative Totals for September 30, 2003)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Current and other assets	$ 708,633	$ 731,143	$ 202,559	$ 206,703	$ 911,192	$ 937,846
Capital Assets	3,047,629	3,001,042	296,394	294,308	3,344,023	3,295,350
Total Assets	3,756,262	3,732,185	498,953	501,011	4,255,215	4,233,196
Current and other liabilities	135,687	146,728	11,900	13,440	147,587	160,168
Long-term liabilities	1,312,631	1,287,466	259,433	266,780	1,572,064	1,554,246
Total Liabilities	1,448,318	1,434,194	271,333	280,220	1,719,651	1,714,414
Net Assets						
Investment in capital assets, net of related debt	2,118,418	2,079,719	197,929	156,567	2,316,347	2,236,286
Restricted	89,867	92,524	23,720	56,489	113,587	149,013
Unrestricted	99,659	125,748	5,971	7,735	105,630	133,483
Total Net Assets	$ 2,307,944	$ 2,297,991	$ 227,620	$ 220,791	$ 2,535,564	$ 2,518,782

For the year ended September 30, 2004, total assets exceeded liabilities by $2,535,564. The largest portion of the City's net assets, $2,316,347 (91.4%) represents its investment in capital assets less any related debt used to acquire those assets that is still outstanding, and includes assets such as land, infrastructure, improvements, buildings, machinery and equipment.

Capital assets are used to provide services to the citizens of San Antonio and are not available for further spending. Although the City's investment in capital assets is reported net of related debt, the resources needed to repay the debt must be provided from other sources, as capital assets cannot be used to liquidate these liabilities.

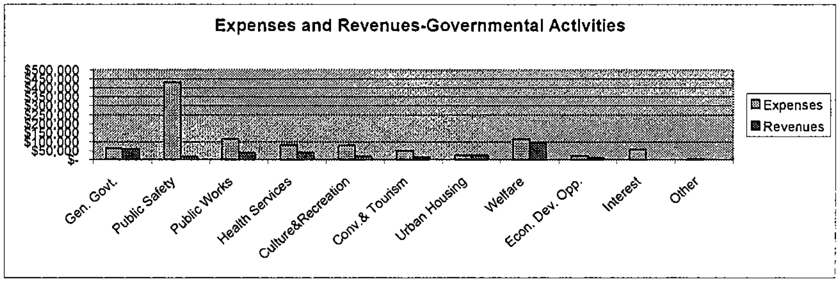
Of the total net assets, $113,587 (4.5%) represents resources that are subject to external restrictions on how they may be used. The remaining $105,630 (4.1%) represents unrestricted net assets, which can be used to meet the government's ongoing obligations to citizens and creditors.

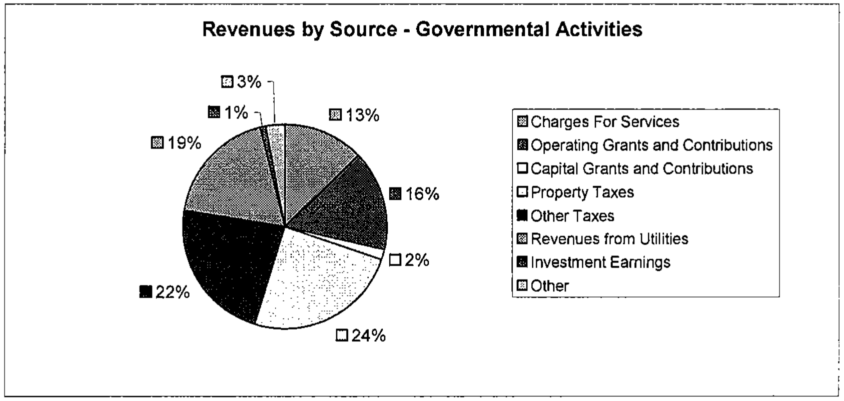
City of San Antonio, Texas
Changes in Net Assets
For the year ended September 30, 2004
(With Comparative Totals for September 30, 2003)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program Revenues:						
Charges for services	$ 133,709	$ 136,118	$ 103,739	$ 100,998	$ 237,448	$ 237,116
Operating grants and contributions	168,120	190,746			168,120	190,746
Capital grants and contributions	16,614	51,189	27	3,865	16,641	55,054
General revenues:						
Property Taxes	257,514	236,947			257,514	236,947
Other Taxes	238,700	232,009			238,700	232,009
Revenues from Utilities	196,793	210,854			196,793	210,854
Investment Earnings	7,189	8,556	2,046	2,557	9,235	11,113
Net Increase (Decrease) in Fair Value of Investments		(20)		(6)		(26)
Miscellaneous	28,542	(1,639)	10,378	9,406	38,920	7,767
Gain (Loss) on Sale of Capital Assets	611	542		39	611	581
Capital Contributions	1,585	1,115			1,585	1,115
Total Revenues	$ 1,049,377	$ 1,066,417	$ 116,190	$ 116,859	$ 1,165,567	$ 1,183,276
Expenses:						
Primary Government:						
Governmental Activities:						
General Government	63,610	67,034			63,610	67,034
Public Safety	428,607	378,316			428,607	378,316
Public Works	116,629	128,374			116,629	128,374
Sanitation	2,787	7,102			2,787	7,102
Health Services	82,233	84,239			82,233	84,239
Environmental Protection and Control	36	298			36	298
Culture and Recreation	80,051	77,434			80,051	77,434
Convention and Tourism	50,100	51,141			50,100	51,141
Urban Redevelopment and Housing	23,981	28,653			23,981	28,653
Welfare	116,701	133,455			116,701	133,455
Economic Development Opportunity	21,277	19,847			21,277	19,847
Commercial Paper Fees		84				84
Interest on Long-term Debt	55,855	54,490			55,855	54,490
Business-type Activities:						
Airport			49,427	45,164	49,427	45,164
Parking Facilities			6,264	7,523	6,264	7,523
Environmental Services			51,227	48,252	51,227	48,252
Total Expenses	1,041,867	1,030,467	106,918	100,939	1,148,785	1,131,406
Increase in Net Assets before transfers	7,510	35,950	9,272	15,920	16,782	51,870
Transfers	2,443	5,488	(2,443)	(5,488)		
Net Increase in Net Assets	9,953	41,438	6,829	10,432	16,782	51,870
Beginning Net Assets	2,297,991	2,256,553	220,791	210,359	2,518,782	2,466,912
Ending Net Assets	$ 2,307,944	$ 2,297,991	$ 227,620	$ 220,791	$ 2,535,564	$ 2,518,782

Governmental Activities
The City's total revenues were $1,165,567 for fiscal year ended September 30, 2004. Revenues from governmental activities totaled $1,049,377 and revenues from business-type activities totaled $116,190. General revenues represented 63.8% of the City's total revenue, while program revenues provided 36.2% of revenue received in fiscal year 2004.

Expenses for the City totaled $1,148,785. Governmental activity expenses totaled $1,041,867, or 90.7% of total expenses.

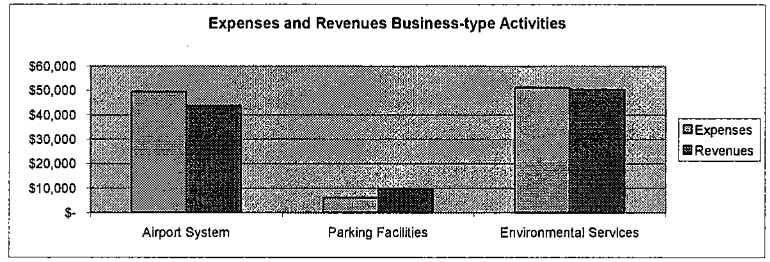


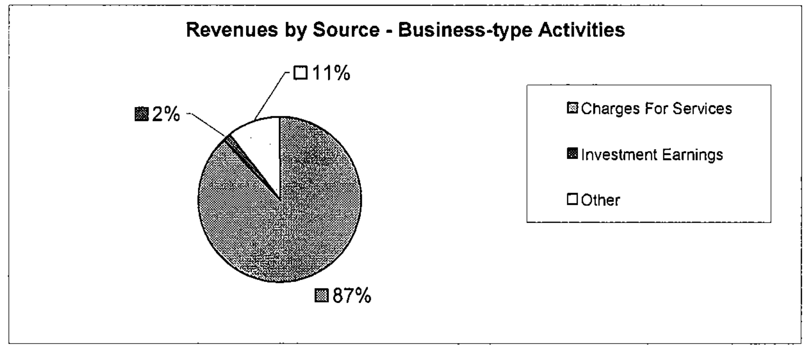


Revenues exceeded expenses by $16,782. General revenues increased over fiscal year 2003 by $42,488, which was partially attributed to an in increase in Property Taxes by $20,567 and an increase in Miscellaneous Revenues by $31,153. The City collected more in Property Taxes in fiscal year 2004 because the overall estimated appraised value of properties increased over the prior year, thereby increasing revenues.

Expenses increased slightly over prior year amounts. Public Safety spending increased by 13.3%, which was due to an increase in salaries and depreciation expense for the City's radio system tower and equipment, most of which was placed into service during fiscal year 2004. Welfare expenses decreased by 14.4% as a result of increased expenses from the prior year for the Child Care Delivery System federal grant received in fiscal year 2003, but not in 2004. Public Works expenses also decreased by 10.1%, which was mostly attributable to a decrease of project related expenses in the Categorical Grant-In Aid fund from fiscal year 2003.

Business-type Activities/Proprietary Funds
Program revenues for the City's business-type activities totaled $103,766, which is $1,097 lower than the previous fiscal year. Expenses for business-type activities were $106,918 compared to prior years expenses of $100,939. The current year's increase in expenses is attributed to increased expenses incurred in the Airport and Environmental Services funds over the prior year. The remaining revenue was a result of interest and other miscellaneous items.





Financial Analysis of Governmental Funds

Activities of the Primary Government's General Fund, Special Revenue Funds, and Debt Service Funds are considered general government functions. The General Fund is the City's general operating fund. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted as to expenditure. The Debt Service Funds are used to account for financial activity related to the City's general bonded indebtedness, as well as other long-term obligations.

Revenues from taxes increased by $27,258 which was primarily attributable to: (1) a $13,173 or 8.8% increase in property tax revenue in the General Fund, (2) an $9,856 or 6.9% increase in sales tax revenue in the General Fund, and (3) a $5,345 or 5.2% increase in property tax revenue for the Debt Service Fund as a result of increased property valuation, new construction, and annexation. Revenues for the utilities category, which is represented in the City's General Fund decreased by $14,061 or 6.7%. This is primarily attributed to a decrease of $14,510 in the City's payment from CPS which is based on CPS' gross revenues. CPS revenues are impacted by a number of variables such as fuel costs, weather, types of electric generation used as well as other factors.

The total fund balance of the General Fund at year-end was $98,510, an increase of $16,868 from the total fund balance of $81,642 for the close of fiscal year 2003. The total unreserved general fund balance for fiscal year 2004 is $90,410, which represents $29,175 in designated and $61,235 in undesignated fund balance. The undesignated fund balance, which represents amounts available for additional appropriations, in the General Fund at the close of the fiscal year increased by $19,751 from the previous year.

The total fund balance of the Debt Service Fund at year-end was $83,723; a decrease of $4,165 from the total fund balance for the close of fiscal year 2003. The entire fund balance is reserved for payment of debt service.

General Fund Budgetary Highlights

Significant Variances in Budget Appropriations
General Fund

	Original Budget	Final Budget	Actual Results
General Government	$ 57,504	$ 77,710	$ 54,215
Public Safety	365,593	378,062	376,925
Public Works	14,041	10,638	10,657
Health Services	15,811	12,911	13,410
Sanitation	2,537	2,536	2,380
Welfare	17,366	16,989	16,481
Culture and Recreation	62,676	62,463	57,919
Economic Development and Opportunity	19,126	22,864	8,043
Transfers to other funds	72,786	76,111	76,441
Total	$ 627,440	$ 660,284	$ 616,471

Changes in original budget appropriations to the final amended budget appropriations were a $32,844 increase in appropriations. This increase can be summarized by the following discussion.

General Government had a $20,206 increase composed of $5,928 of budget carry forwards and a $14,278 budget increase. Of the $12,469 increase in Public Safety, $1,076 was due to budget carry forwards and an $11,393 budget increase. Public Works had a $3,403 decrease composed of an increase of $106 in budget carry forwards and a $3,509 budget decrease. Health Services had a $2,900 budget decrease, which consisted of $125 of budget carry forwards and $3,025 of budget decreases. Sanitation had a $1 budget decrease. All of the $377 decrease in Welfare was due to a budget decrease. Culture and Recreation's $213 decrease was due to a $1,098 increase for budget carry forwards and $1,311 as a decrease in budget. The $3,738 increase in Economic Development and Opportunity was due to a $169 increase in budget carry forwards and a $3,569 budget increase. The $3,325 increase in transfers was due to amounts funded from various government functions.

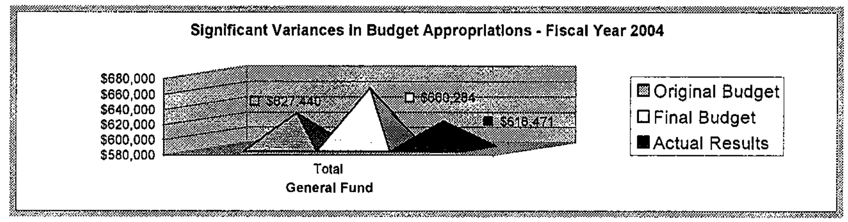
Final budgeted appropriations for the General Fund were $660,284 while actual expenditures were $616,471, creating a positive variance of $43,813. Significant variances are as follows:

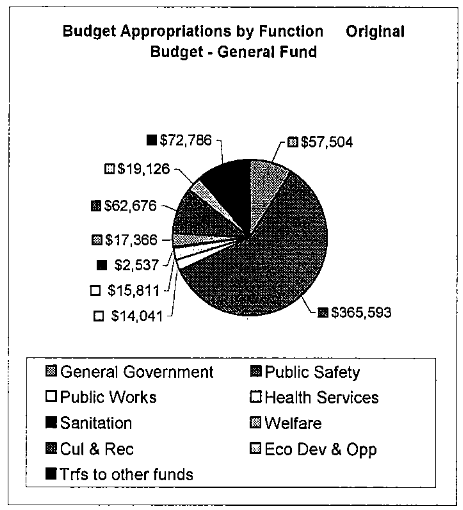
- General Government had a $23,495 positive variance, which was composed of $13,278 of budgeted salaries, $1,235 of anticipated improvements, $601 of improvements to computers to include software licenses, $210 for training and incentives, $6,533 in various contractual services, and $1,281in unrealized expenditures for commodities such as supplies and repair and maintenance, and $357 in unrealized capital expenditures.

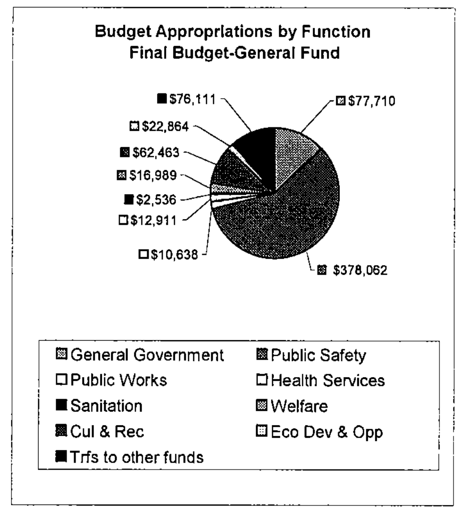
- Culture and Recreation had a positive variance of $4,544, which was due to $2,447 of budgeted salaries, $1,603 in contractual services, $449 in expenditures for commodities, and $45 in capital expenditures

- Economic Development and Opportunity had a $14,821 positive variance, which was mostly attributable to $12,000 in anticipated expenditures for infrastructure improvements to be made at Brooks City-Base. Other savings include $2,741 in contractual services and $80 in unrealized capital expenditures.

The following charts provide a comparison of the City's budget appropriations.





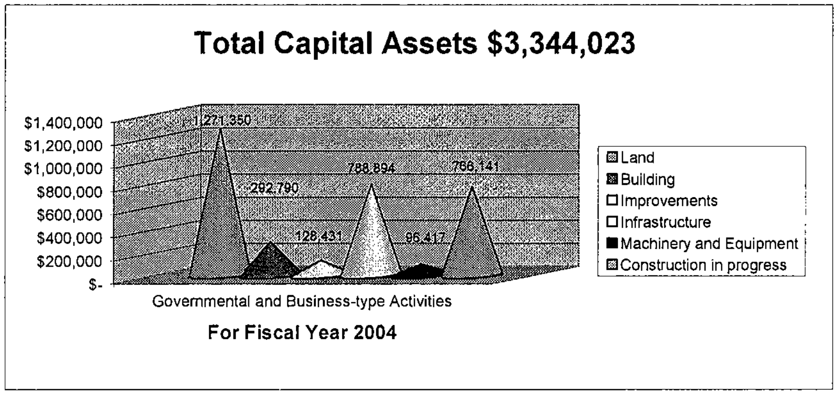


Capital Assets

The City of San Antonio's investment in capital assets for its governmental and business-type activities as of September 30, 2004, amounts to $3,344,023 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, infrastructure, and machinery and equipment. The total increase in the City's investment in capital assets for the current fiscal year was 1.5%, which is comprised of a 1.6% increase for governmental activities and a 0.7% increase for business-type activities.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Land	$ 1,259,362	$ 1,238,908	$ 11,988	$ 11,988	$ 1,271,350	$ 1,250,896
Buildings	220,650	239,019	72,140	75,380	292,790	314,399
Improvements	40,379	34,974	88,052	92,682	128,431	127,656
Infrastructure	788,894	805,327			788,894	805,327
Machinery and Equipment	92,823	96,856	3,594	4,690	96,417	101,546
Construction in Progress	645,521	585,958	120,620	109,568	766,141	695,526
Totals	$ 3,047,629	$ 3,001,042	$ 296,394	$ 294,308	$ 3,344,023	$ 3,295,350

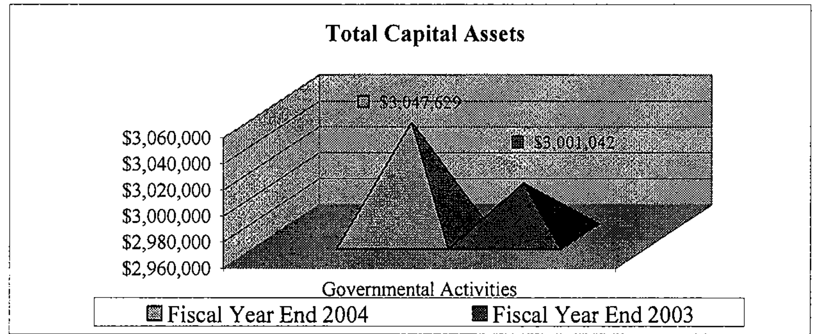
The following schedule provides a summary of the City's capital assets:

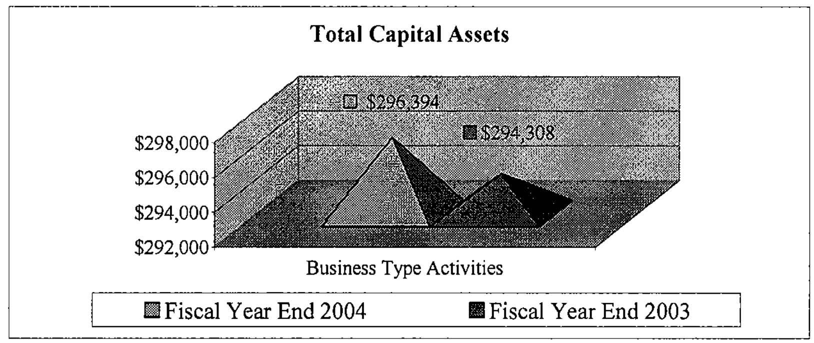


Change in Capital Assets
September 30, 2004

	Governmental Activites	Business-Type Activities	Total
Beginning Balance	$ 3,001,042	$ 294,308	$ 3,295,350
Additions	154,271	11,476	165,747
Deletions	(13,460)	(933)	(14,393)
Accumulated Depreciation	(94,224)	(8,457)	(102,681)
Total	$ 3,047,629	$ 296,394	$ 3,344,023

The following charts provide a summary of the changes in capital assets:





Additional information on the City's capital assets can be found in Note 4 of the notes to the financial statements.

Debt Administration

Long-term Debt

At the end of the current fiscal year, the City of San Antonio had a total of $1,394,988 in bonds, certificates, revenue bonds and commercial paper outstanding, an increase of 1.3% over last year. Additional information on the City of San Antonio's long-term debt, including descriptions of the new issues, can be found in Note 6 in the Notes to the Financial Statements.

City of San Antonio's Outstanding Debt
September 30, 2004 and 2003

	Governmental Activities	
	2004	2003
Bonds Payable:		
General Obligation Bonds	$ 655,141	$ 666,983
Tax-Exempt Commercial Paper		10,500
Tax-Exempt Certificate of Obligation	214,470	196,280
Taxable Certificates of Obligation	4,580	5,165
Revenue Bonds	264,697	234,918
Total	$ 1,138,888	$ 1,113,846

	Business-type Activities	
	2004	2003
Bonds Payable:		
General Obligation Bonds	$ 13,245	$ 12,475
Tax-Exempt Certificate of Obligation		135
Revenue Bonds	242,855	250,265
Total	$ 256,100	$ 262,875

On September 30, 2003, outstanding bonds, certificates and commercial paper debt totaled $1.377 billion. In April 2004, the City issued additional indebtedness for a total of $63.1 million. The $63 million was comprised of $33,570 in general obligation bonds and $29,525 in tax-exempt certificates of obligation. The general obligation bonds and certificates of obligation are to be utilized to fund capital improvement projects to include streets and pedestrian improvements, drainage improvements, library system improvements, parks and recreation improvements and public health and safety. Additionally, in April 2004, the City issued $13.2 million in taxable general obligation refunding bonds, together with a cash contribution from the City, which were used to refund $11.7 million of the City's outstanding tax supported debt, which was used to finance or refinance certain parking facilities owned and operated by the City. Hotel Occupancy Tax Subordinate Lien Revenue Refunding bonds were issued in June 2004, for the amount of $10.4 million, for the purpose of refunding certain of its outstanding Prior Lien Bonds. Another $111.4 million in Hotel Occupancy Tax Subordinate Lien Revenue and Refunding bonds were issued in June 2004, which was used, together with a cash contribution from the city, for the purpose of construction of permanent improvements relating to the expansion of the Convention Center, and refunding $82.2 million of Prior Lien Bonds.

Standard & Poor's, Moody's and Fitch's underlying rating for City obligations are as follows:

	Standard & Poor's	Moody's	Fitch
General Obligation/ Certificates of Obligation	AA+	Aa2	AA+
Airport	A+	A1	A+
Airport PFC	A-	A2	A+
Convention Center - Prior Lien	A+	A1	A+
Convention Center - Subordinate Lien	A+	A2	A
Parking	A+	A2	A+
Drainage	AA-	A1	A+

The Constitution of the State of Texas and the City Charter limit the amount of debt the City may incur. The City Charter establishes a limitation on the general obligation debt supported by ad valorem taxes to an amount not to exceed 10% of the total assessed valuation. The total assessed valuation for the fiscal year ending 2004 was $49,723,286, which provides a debt ceiling of $4,972,329.

Requests for Information

This financial report is designed to provide a general overview of the City's position for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, P.O. Box 839966, San Antonio, TX 78283-3966.

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City of San Antonio
Texas

Basic Financial Statements

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STATEMENT OF NET ASSETS
AS OF SEPTEMBER 30, 2004
(In Thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
Assets				
Cash and Cash Equivalents	$ 110,424	$ 1,059	$ 111,483	$ 74,287
Investments	422,178	16,481	438,659	262,991
Receivables (net)	121,452	6,102	127,554	235,559
Due from Fiduciary Funds	52		52	
Due from Other Governmental Agencies	37,443		37,443	2,589
Internal Balances	7,146	(7,146)		
Inventories of Materials and Supplies, at Cost	5,122	546	5,668	116,484
Prepaid Expenses	131	18	149	39,229
Deposits	418		418	
Restricted Assets:				
Cash and Cash Equivalents		10,548	10,548	58,157
Investments		170,403	170,403	1,251,100
Receivables - Accrued Interest		341	341	9,061
Capital Assets:				
Non-depreciable	1,904,883	132,608	2,037,491	855,860
Depreciable, net	1,142,746	163,786	1,306,532	5,966,407
Assets Held for Resale				8,147
Prepaid Rent Long Term - Leaseback				535,972
Unamortized Debt Expense	4,267	4,207	8,474	34,926
Total Assets	3,756,262	498,953	4,255,215	9,450,769
Liabilities				
Accounts Payable and Other Current Liabilities	101,868	8,081	109,949	207,349
Deferred Revenues	17,998	868	18,866	2,492
Accrued Interest	8,067	3	8,070	
Accrued Bond and Certificate Interest		2,948	2,948	6,311
Due to Other Governmental Agencies	7,754		7,754	1,107
Noncurrent Liabilities:				
Due within one year	102,305	15,096	117,401	150,974
Due in more than one year	1,210,326	244,337	1,454,663	5,068,381
Total Liabilities	1,448,318	271,333	1,719,651	5,436,614
Net Assets				
Invested in Capital Assets, net of related debt	2,118,418	197,929	2,316,347	2,790,336
Restricted for:				
Debt Service	87,311	23,720	111,031	9,968
Equipment Renewal and Replacement	12		12	620,191
Improvement and Contingency				
Conservation				158,683
Perpetual Care:				
Expendable	943		943	
Nonexpendable	1,601		1,601	
Unrestricted	99,659	5,971	105,630	434,977
Total Net Assets	$ 2,307,944	$ 227,620	$ 2,535,564	$ 4,014,155

The accompanying notes are an integral part of these financial statements.

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CITY OF SAN ANTONIO, TEXAS

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2004
(In Thousands)

FUNCTION/PROGRAM ACTIVITIES	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: OPERATING GRANTS AND CONTRIBUTIONS	PROGRAM REVENUES: CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS — PRIMARY GOVERNMENT: GOVERNMENTAL ACTIVITIES	PRIMARY GOVERNMENT: BUSINESS-TYPE ACTIVITIES	PRIMARY GOVERNMENT: TOTAL	COMPONENT UNITS
Primary Government:								
Governmental Activities:								
General Government	$ 63,610	$ 57,203	$ 1,480	$ 0	$ (5,368)	$ 0	$ (5,368)	
Public Safety	428,607	7,172	8,347	1,893	(411,195)		(411,195)	
Public Works	116,629	28,271	3,545	7,610	(77,203)		(77,203)	
Sanitation	2,787		25		(2,762)		(2,762)	
Health Services	82,233	17,924	22,915	290	(41,104)		(41,104)	
Environmental Protection and Control	36				(36)		(36)	
Culture and Recreation	80,051	9,411	2,976	6,140	(61,083)		(61,083)	
Convention and Tourism	50,100	13,268			(36,832)		(36,832)	
Urban Redevelopment and Housing	23,981	217	23,343	460	39		39	
Welfare	116,701		95,471	221	(21,009)		(21,009)	
Economic Development Opportunity	21,277	243	10,018		(11,016)		(11,016)	
Interest on Long-term Debt	55,855				(55,855)		(55,855)	
Total governmental activities	1,041,867	133,709	168,120	16,614	(723,424)		(723,424)	
Business-type Activities								
Airport System	49,427	43,701		27		(5,699)	(5,699)	
Parking Facilities	6,264	9,647				3,383	3,383	
Environmental Services	51,227	50,391				(836)	(836)	
Total business-type activities	106,918	103,739		27		(3,152)	(3,152)	
Total primary government	$ 1,148,785	$ 237,448	$ 168,120	$ 16,641	(723,424)	(3,152)	(726,576)	
Component units:								
San Antonio Water System	256,440	241,085	0	66,291				$ 50,936
City Public Service	1,542,449	1,503,814		47,191				8,556
Other Component Units	50,767	12,112		34,836				(3,819)
Total component units	$ 1,849,656	$ 1,757,011	$ 0	$ 148,318	0	0	0	55,673
General Revenues:								
Taxes:								
Property Taxes					257,514	0	257,514	0
General Sales and Use Taxes					162,383		162,383	
Selective Sales and Use Taxes					4,189		4,189	
Gross Receipts Business Taxes					22,787		22,787	
Occupancy Taxes					46,343		46,343	
Penalties and Interest on Delinquent Taxes					2,998		2,998	
Revenues from Utilities					196,793		196,793	
Investment Earnings					7,189	2,046	9,235	73,065
Miscellaneous					28,542	10,378	38,920	6,765
Gain (Loss) on Sale of Capital Assets					611		611	(6,056)
Capital Contributions					1,585		1,585	
Transfers (net)					2,443	(2,443)		
Total General Revenues, Special Items, and Transfers					733,377	9,981	743,358	73,774
Change in Net Assets					9,953	6,829	16,782	129,447
Net Assets - Beginning					2,297,991	220,791	2,518,782	3,882,497
Prior Period Adjustment								2,211
Net Assets - Ending					$ 2,307,944	$ 227,620	$ 2,535,564	$ 4,014,155

The accompanying notes are an integral part of these financial statements.

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CITY OF SAN ANTONIO, TEXAS

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2004
(In Thousands)

The accompanying notes are an integral part of these financial statements.

BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF SEPTEMBER 30, 2004
(In Thousands)

	MAJOR FUNDS GENERAL	DEBT SERVICE	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Assets				
Cash and Cash Equivalents	$ 1,242	$ 21,662	$ 81,954	$ 104,858
Investments	23,303	59,903	302,269	385,475
Receivables	88,159	9,860	90,137	188,156
Allowance for Uncollectibles	(17,636)	(544)	(50,582)	(68,762)
Prepaid Expenditures	50		78	128
Due from Other Funds	39,888	1,054	3,991	44,933
Due from Other Governmental Agencies	336		36,926	37,262
Allowance for Uncollectibles			(331)	(331)
Inventories of Materials and Supplies, at Cost	2,395		1,115	3,510
Deposits			261	261
Total Assets	$ 137,737	$ 91,935	$ 465,818	$ 695,490
Liabilities and Fund Balances				
Liabilities:				
Vouchers Payable	$ 0	$ 0	$ 66	$ 66
Accounts Payable - Other	5,355		32,403	37,758
Accrued Payroll	7,196		2,444	9,640
Accrued Leave Payable	4,607		1,166	5,773
Deferred Revenues	18,482	8,212	25,202	51,896
Due To:				
Other Funds	3,587		42,999	46,586
Other Governmental Agencies			7,043	7,043
Total Liabilities	39,227	8,212	111,323	158,762
Fund Balances:				
Reserved:				
Reserved for Encumbrances	5,655		125,719	131,374
Reserved for Inventories	2,395		1,116	3,511
Reserved for Prepaid Expenditures	50		78	128
Reserved for Debt Service		83,723		83,723
Unreserved:				
Designated	29,175			29,175
Designated: Special Revenue Funds			7,844	7,844
Designated: Permanent Funds			2,601	2,601
Undesignated	61,235			61,235
Undesignated: Special Revenue Funds			61,749	61,749
Undesignated: Capital Projects Funds			145,090	145,090
Undesignated: Permanent Funds			10,298	10,298
Total Fund Balances	98,510	83,723	354,495	536,728
Total Liabilities and Fund Balances	$ 137,737	$ 91,935	$ 465,818	$ 695,490

The accompanying notes are an integral part of these financial statements.

RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
AS OF SEPTEMBER 30, 2004
(In Thousands)

Fund Balances - Total Governmental Funds		$ 536,728
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
Governmental capital assets		
Land and Land Improvements	1,259,362	
Construction In Progress	645,521	
Buildings	387,648	
Improvements	77,538	
Infrastructure Assets	1,979,118	
Machinery and Equipment	88,714	
Less: Accumulated Depreciation	(1,430,525)	
Total Capital Assets		3,007,376
Some of the City's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are not reported in the governmental funds.		35,154
Internal service funds are used by management to charge the cost of certain activities to individual funds. The assets and liabilities of the internal service funds are reported with governmental activities in the Statement of Net Assets.		37,575
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Governmental bonds payable	(1,158,521)	
Premium on bonds	(40,343)	
Deferred Amount on Refunding	15,863	
Leases Payable	(6,545)	
Unamortized Debt Expense	4,267	
Accrued Interest	(8,067)	
Arbitrage Rebate	(968)	
Compensated Absences	(114,575)	
		(1,308,889)
Net assets of governmental activities		$ 2,307,944

The accompanying notes are an integral part of these financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2004

(In Thousands)

	MAJOR FUNDS			
	GENERAL	DEBT SERVICE	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Revenues				
Taxes:				
Property Taxes	$ 162,629	$ 94,056	$ 1,346	$ 258,031
General Sales and Use Taxes	148,492		13,891	162,383
Selective Sales and Use Taxes	4,189			4,189
Gross Receipts Business Taxes	26,550			26,550
Occupancy Taxes			46,343	46,343
Penalties and Interest on Delinquent Taxes	1,848	1,080	70	2,998
Licenses and Permits	17,026			17,026
Intergovernmental	2,696		179,021	181,717
Revenues from Utilities	196,405			196,405
Charges for Services	30,029		63,780	93,809
Fines and Forfeits	11,713			11,713
Miscellaneous	9,644		24,682	34,326
Interest	1,115	1,967	3,814	6,896
In-Kind Contributions			10,407	10,407
Total Revenues	612,336	97,103	343,354	1,052,793
Expenditures				
Current:				
General Government	53,456		6,145	59,601
Public Safety	375,316		16,634	391,950
Public Works	10,657		54,548	65,205
Health Services	13,384		66,459	79,843
Environmental Protection and Control			30	30
Sanitation	2,380			2,380
Welfare	15,921		99,693	115,614
Culture and Recreation	57,073		17,270	74,343
Convention and Tourism			48,188	48,188
Urban Redevelopment and Housing			23,904	23,904
Economic Development and Opportunity	7,688		12,546	20,234
Capital Projects			130,981	130,981
Debt Service:				
Principal Retirement		72,410		72,410
Interest		52,558		52,558
Issuance Costs		2,061		2,061
Total Expenditures	535,875	127,029	476,398	1,139,302
Excess (Deficiency) of Revenues Over (Under) Expenditures	76,461	(29,926)	(133,044)	(86,509)
Other Financing Sources (Uses)				
Long-Term Debt Issued		97,770	88,821	186,591
Payments to Refunded Bond Escrow Agent		(99,526)		(99,526)
Premium on Long-term Debt		4,879	4,609	9,488
Transfers In	15,348	22,638	143,571	181,557
Transfers Out	(74,941)		(106,182)	(181,123)
Total Other Financing Sources (Uses)	(59,593)	25,761	130,819	96,987
Net Change in Fund Balances	16,868	(4,165)	(2,225)	10,478
Fund Balances, October 1	81,642	87,888	356,720	526,250
Fund Balances, September 30	$ 98,510	$ 83,723	$ 354,495	$ 536,728

The accompanying notes are an integral part of these financial statements.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED SEPTEMBER 30, 2004

(In Thousands)

Net change in Fund Balances - Total Governmental Funds		$ 10,478
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period.		
Expenditures for capital assets	139,866	
Less current year deletions	(1,757)	
Less current year depreciation	(88,738)	49,371
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		(6,078)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount by which proceeds exceeded repayments.		
Bond and loan amounts	(196,079)	
Bond costs	2,055	
Payments to Escrow Agent	99,526	
Amortization of Bond Premiums and Deferred Charges (net)	(1,167)	
Principal payments	72,410	(23,255)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		(1,564)
Internal service funds are used by management to charge the cost of certain activities to individual funds. The net (expense) of the internal service funds is reported with governmental activities.		(18,999)
Change in net assets of governmental activities		$ 9,953

The accompanying notes are an integral part of these financial statements.

— CITY OF SAN ANTONIO, TEXAS —

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
AS OF SEPTEMBER 30, 2004
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
ASSETS	AIRPORT SYSTEM	PARKING FACILITIES	NONMAJOR ENTERPRISE FUND-ENVIRONMENTAL SERVICES	TOTAL	INTERNAL SERVICE FUNDS
Current Assets:					
Cash and Cash Equivalents	$ 335	$ 126	$ 598	$ 1,059	$ 5,566
Investments	10,554	2,919	3,008	16,481	36,703
Receivables:					
Other Accounts	1,642	59	2	1,703	2,388
Less: Allowance for Uncollectibles	(437)	(57)		(494)	(1,566)
Accrued Interest	27	7	9	43	116
Accrued Revenue	756		4,094	4,850	555
Due From Other Funds	668			668	23,848
Due From Other Governmental Agencies					678
Less: Allowance for Uncollectibles					(166)
Inventories	335	199	12	546	1,612
Prepaid Expenses	18			18	3
Deposits					157
Total Current Assets	13,898	3,253	7,723	24,874	69,894
Noncurrent Assets:					
Restricted Assets:					
Debt Service Accounts:					
Cash and Cash Equivalents	6,687	1,668		8,355	
Investments	17,430	855		18,285	
Receivables-Accrued Interest	30	3		33	
Due From Other Funds	67			67	
Construction Accounts:					
Cash and Cash Equivalents	40	365	62	467	
Investments	102,015	8,067	343	110,425	
Receivables-Accrued Interest	214	22	1	237	
Due From Other Funds	761			761	
Improvement and Contingency Accounts:					
Cash and Cash Equivalents	1,203	310	81	1,594	
Investments	39,211	1,413	406	41,030	
Receivables-Accrued Interest	65	3	1	69	
Other Restricted Accounts:					
Cash and Cash Equivalents	132			132	
Investments	663			663	
Receivables-Accrued Interest	2			2	
Due From Other Funds	2			2	
Total Restricted Assets	168,522	12,706	894	182,122	
Capital Assets:					
Land	2,970	8,125	893	11,988	
Buildings	115,656	18,985	46	134,687	178
Improvements Other Than Buildings	156,110	1,283	3,025	160,418	194
Machinery and Equipment	10,299	571	3,743	14,613	109,387
Construction in Progress	107,750	12,434	436	120,620	
Total Capital Assets	392,785	41,398	8,143	442,326	109,759
Less: Accumulated Depreciation	133,194	9,455	3,283	145,932	69,506
Net Capital Assets	259,591	31,943	4,860	296,394	40,253
Unamortized Debt Expense	3,342	865		4,207	
Total Assets	$ 445,353	$ 48,767	$ 13,477	$ 507,597	$ 110,147

The accompanying notes are an integral part of these financial statements.

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— CITY OF SAN ANTONIO, TEXAS —

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
AS OF SEPTEMBER 30, 2004
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
LIABILITIES	AIRPORT SYSTEM	PARKING FACILITIES	NONMAJOR ENTERPRISE FUND-ENVIRONMENTAL SERVICES	TOTAL	INTERNAL SERVICE FUNDS
Current Liabilities:					
Vouchers Payable	$	$	$	$ -	$
Accounts Payable-Other	4,213	75	2,749	7,037	53,581
Accrued Payroll	421	80	543	1,044	821
Accrued Leave Payable	174	18	137	329	649
Deferred Revenues	868			868	693
Accrued Interest			3	3	
Due to Other Funds	73	2		75	22,335
Total Current Liabilities Payable from Current Assets	5,749	175	3,432	9,356	78,079
Current Liabilities Payable from Restricted Assets:					
Accrued Bond and Certificate Interest	2,939	7	2	2,948	
Current Portion of Bonds and Certificates	8,390	1,580		9,970	
Due to Other Funds	448	783		1,231	
Lease Purchase			143	143	146
Other Payables	3,084	519	1,051	4,654	
Total Current Liabilities Payable from Restricted Assets	14,861	2,889	1,196	18,946	146
Total Current Liabilities	20,610	3,064	4,628	28,302	78,225
Noncurrent Liabilities					
Revenue Bonds (Net of Current Portion)	210,020	23,995		234,015	
General Obligation Bonds and Certificates (Net of Current Portion)		12,115		12,115	
Unamortized Premium/Discount on New Series	2,752	(768)		1,984	
Less: Deferred Amount on Refunding	(4,037)	(1,648)		(5,685)	
Accrued Leave Payable	872	89	684	1,645	539
Lease Purchase			263	263	435
Due to Other Governmental Agencies					711
Total Noncurrent Liabilities	209,607	33,783	947	244,337	1,685
Total Liabilities	230,217	36,847	5,575	272,639	79,910
NET ASSETS					
Invested In Capital Assets, net of related debt	145,574	4,754	4,858	155,186	40,057
Restricted:					
Debt Service	21,268	2,452		23,720	
Renewal and Replacement					
Improvements and Contingency	41,017	1,726		42,743	
Unrestricted	7,277	2,988	3,044	13,309	(9,820)
Total Net Assets	$ 215,136	$ 11,920	$ 7,902	$ 234,958	$ 30,237

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.	(7,338)
Net assets of business-type activities.	$ 227,620

The accompanying notes are an integral part of these financial statements.

—— CITY OF SAN ANTONIO, TEXAS ——

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	PARKING FACILITIES	NONMAJOR ENTERPRISE FUND- ENVIRONMENTAL SERVICES	TOTAL	INTERNAL SERVICE FUNDS
Operating Revenues					
Charges for Services	$ 43,701	$ 9,647	$ 50,391	$ 103,739	$ 151,190
Total Operating Revenues	43,701	9,647	50,391	103,739	151,190
Operating Expenses					
Personal Services	16,659	2,986	22,321	41,966	35,771
Contractual Services	8,481	1,069	20,950	30,500	88,806
Commodities	1,256	443	3,300	4,999	4,924
Materials					16,572
Other	1,703	463	2,410	4,576	18,794
Depreciation	7,996	556	419	8,971	14,491
Total Operating Expenses	36,095	5,517	49,400	91,012	179,358
Operating Income (Loss)	7,606	4,130	991	12,727	(28,168)
Nonoperating Revenues (Expenses)					
Interest and Other	1,825	166	55	2,046	626
Other Nonoperating Revenue	9,890	1,572	114	11,576	1,624
Gain (Loss) on Sale of Fixed Assets	(9)	(199)	(23)	(231)	610
Interest and Debt Expense	(11,983)	(1,551)	(20)	(13,554)	(31)
Other Nonoperating Expense	(555)	(18)		(573)	
Total Nonoperating Revenues (Expenses)	(832)	(30)	126	(736)	2,829
Change in Net Assets Before Contributions and Transfers	6,774	4,100	1,117	11,991	(25,339)
Capital Contributions	27			27	1,585
Transfers In (Out)					
Transfers In	761	421	35	1,217	6,512
Transfers Out	(477)	(1,523)	(1,660)	(3,660)	(4,503)
Total Transfers	284	(1,102)	(1,625)	(2,443)	2,009
Change In Net Assets	7,085	2,998	(508)	9,575	(21,745)
Net Assets - Beginning	208,051	8,922	8,410		51,982
Net Assets - Ending	$ 215,136	$ 11,920	$ 7,902		$ 30,237
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				(2,746)	
Change in net assets of business-type activities.				$ 6,829	

The accompanying notes are an integral part of these financial statements.

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—— CITY OF SAN ANTONIO, TEXAS ——

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	PARKING FACILITIES	NONMAJOR ENTERPRISE FUND- ENVIRONMENTAL SERVICES	TOTALS	INTERNAL SERVICE FUNDS
Cash Flows from Operating Activities					
Cash Received from Customers	$ 44,845	$ 9,672	$ 50,649	$ 105,166	$ 148,014
Cash Payments to Suppliers for Goods and Services	(10,678)	(1,981)	(27,330)	(39,989)	(126,451)
Cash Payments to Employees for Service	(16,500)	(2,978)	(22,222)	(41,700)	(35,482)
Other Nonoperating Revenues	9,890	1,572	114	11,576	1,624
Net Cash Provided by (Used for) Operating Activities	27,557	6,285	1,211	35,053	(12,295)
Cash Flows from Non-Capital Financing Activities					
Transfers In from Other Funds	761	421	35	1,217	6,512
Transfers Out to Other Funds	(477)	(1,523)	(1,660)	(3,660)	(4,503)
Due to/from Other Funds	(1,056)	2	(6)	(1,060)	995
Net Cash Provided by (Used for) Non-Capital Financing Activities	(772)	(1,100)	(1,631)	(3,503)	3,004
Cash Flows from Capital and Related Financing Activities					
Acquisitions and Construction of Capital Assets	(10,429)	(2,243)	41	(12,631)	(11,579)
Proceeds from Issuance of Long-Term Debt		13,233		13,233	278
Principal Payments on Long-Term Debt	(7,010)	(505)	(138)	(7,653)	(19)
Interest Paid on Long-Term Debt	(12,057)	(1,820)	(21)	(13,898)	
Debt Issuance Costs		(266)		(266)	
Defeasance of Revenue Bonds		(12,505)		(12,505)	
Principal Payments on Notes					(139)
Interest Paid on Notes					(13)
Proceeds from Sale of Assets	13			13	2,091
Net Cash Provided by (Used for) Capital and Related Financing Activities	(29,483)	(4,106)	(118)	(33,707)	(9,381)
Cash Flows from Investing Activities:					
Purchases of Investment Securities	(498,931)	(67,546)	(10,845)	(577,322)	(105,949)
Maturity of Investment Securities	424,735	61,708	9,388	495,831	98,202
Interest on Investments	1,728	149	51	1,928	594
Net Cash Provided by (Used for) Investing Activities	(72,468)	(5,689)	(1,406)	(79,563)	(7,153)
Net Increase (Decrease) in Cash and Cash Equivalents	(75,166)	(4,610)	(1,944)	(81,720)	(25,825)
Cash and Cash Equivalents, October 1	83,563	7,079	2,685	93,327	31,391
Cash and Cash Equivalents, September 30	$ 8,397	$ 2,469	$ 741	$ 11,607	$ 5,566

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	PARKING FACILITIES	NONMAJOR ENTERPRISE FUND- ENVIRONMENTAL SERVICES	TOTALS	INTERNAL SERVICE FUNDS
Reconciliation of Operating Income to Net Cash Provided by (Used for) Operating Activities					
Operating Income (Loss)	$ 7,606	$ 4,130	$ 991	$ 12,727	$ (28,168)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided Used for Operating Activities:					
Depreciation	7,996	556	419	8,971	14,491
Other Nonoperating Revenues	9,890	1,572	114	11,576	1,624
Changes in Assets and Liabilities:					
(Increase) Decrease In Other Accounts Receivable	1,181	11		1,192	(2,146)
(Increase) Decrease In Allowance for Uncollectibles	(68)	(12)		(80)	1,473
(Increase) Decrease In Accrued Revenues	9	26	258	293	(468)
(Increase) In Due from Other Funds					(2,722)
(Increase) In Due from Other Gov't Agencies					(187)
(Increase) Decrease In Inventories	112	(10)	3	105	133
(Increase) In Prepaid Expenses					(2)
Decrease In Deposits					116
(Decrease) In Vouchers Payable	(275)	(12)	(1,501)	(1,788)	(2,920)
Increase In Other Payables	927	16	828	1,771	5,206
Increase In Due to Other Funds		8		8	305
Increase In Accrued Payroll	114		122	236	216
Increase (Decrease) In Accrued Leave Payable	44		(23)	21	71
(Decrease) in Contracts Payable					(10)
Increase In Deferred Revenue	21			21	693
Net Cash Provided by (Used for) Operating Activities	$ 27,557	$ 6,285	$ 1,211	$ 35,053	$ (12,295)
Noncash Investing, Capital and Financing Activities:					
Acquisitions and Construction of Capital Assets from Capital Contributions	$ 27	$	$	$ 27	$
Net (Decrease) in Fair Value of Investments	$	$	$	$	$

The accompanying notes are an integral part of these financial statements.

—— CITY OF SAN ANTONIO, TEXAS ——

STATEMENT OF FIDUCIARY NET ASSETS/BALANCE SHEET
FIDUCIARY FUNDS
AS OF SEPTEMBER 30, 2004
(In Thousands)

ASSETS	FIRE AND POLICE PENSION AND HEALTH CARE FUNDS	PRIVATE PURPOSE TRUST FUNDS	AGENCY FUNDS
Current Assets			
Cash and Cash Equivalents	$ 141,645	$ 5	$ 9,016
Security Lending Collateral	159,835		
Investments, at fair value:			
US Government and Agency Issues	141,387	27	
Corporate Bonds	187,849		
Preferred Common Stock	52,773		
Other	1,131,249		
Total Investments, at fair value	1,513,258	27	
Receivables:			
Other Accounts	5,504		437
Accrued Interest	5,641		2
Accrued Revenue	1,186		
Prepayments	15		
Total Current Assets	1,827,084	32	9,455
Capital Assets			
Computer Equipment	76		
Buildings	556		
Total Capital Assets	632		
Less: Accumulated Depreciation	(322)		
Net Capital Assets	310		
Total Assets	1,827,394	32	$ 9,455
LIABILITIES			
Vouchers Payable	3,550		
Accounts Payable- Other	43,055		9,399
Accrued Payroll	71		4
Due to Other Funds			52
Securities Lending	159,835		
Total Liabilities	206,511	0	$ 9,455
NET ASSETS			
Held in Trust for Pension Benefits and Other Purposes	$ 1,620,883	$ 32	

The accompanying notes are an integral part of these financial statements.

—— CITY OF SAN ANTONIO, TEXAS ——

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004
(In Thousands)

	FIRE AND POLICE PENSION AND HEALTH CARE FUNDS	PRIVATE PURPOSE TRUST FUNDS
ADDITIONS:		
Contributions:		
Employer	$ 64,601	$ 0
Employee	26,631	
Other Contributions		6
Total Contributions	91,232	6
Investment Earnings:		
Net Increase in Fair Value of Investments	144,560	
Real Estate Income, net	340	
Interest and Dividends	32,429	
Securities Lending	1,429	
Other Income	739	
Total Investment Earnings	179,497	
Less Investment Expenses:		
Investment Management Fees and Custodian Fees	(6,615)	
Securities Lending Expenses:		
Borrower Rebates	(1,037)	
Lending Fees	(137)	
Net Investment Income	171,708	
Total Additions	262,940	6
DEDUCTIONS:		
Benefits	73,976	
Refunds of Contributions	418	16
Administrative Expense	1,539	
Salaries, Wage and Employee Benefits	517	
Total Deductions	76,450	16
Change in Net Assets	186,490	(10)
Net Assets - Beginning of Year	1,434,393	42
Net Assets - End of Year	$ 1,620,883	$ 32

The accompanying notes are an integral part of these financial statements.

CITY OF SAN ANTONIO, TEXAS

STATEMENT OF NET ASSETS
COMPONENT UNITS
AS OF SEPTEMBER 30, 2004
(In Thousands)

ASSETS	SAN ANTONIO WATER SYSTEM	CITY PUBLIC SERVICE	NONMAJOR COMPONENT UNITS	TOTAL
Current Assets:				
Cash and Cash Equivalents	$	$ 51,532	$ 22,755	$ 74,287
Investments	24,136	238,813	42	262,991
Receivables:				
Notes			12,177	12,177
Other Accounts	28,116	187,995	3,421	219,532
Accrued Interest	1,911	1,864	75	3,850
Inventories of Materials and Supplies	4,858	111,579	47	116,484
Due from Other Governmental Agencies			2,589	2,589
Prepaid Expenses	3,292	35,652	285	39,229
Total Current Assets	62,313	627,435	41,391	731,139
Noncurrent Assets:				
Restricted Assets:				
Debt Service Accounts:				
Cash and Cash Equivalents		13		13
Investments	11,467			11,467
Receivables-Accrued Interest				
Construction Accounts:				
Cash and Cash Equivalents	38,397			38,397
Investments	235,119	18,253		253,372
Receivables-Accrued Interest		658		658
Repair and Replacement Account:				
Cash and Cash Equivalents				
Investments		612,556		612,556
Receivables-Accrued Interest		5,433		5,433
Conservation Accounts:				
Investments	5,823			5,823
Improvement and Contingency Accounts:				
Investments	12,007			12,007
Other Restricted Accounts:				
Cash and Cash Equivalents		16,931	2,816	19,747
Investments		355,875		355,875
Receivables-Accrued Interest		2,970		2,970
Total Noncurrent Assets	302,813	1,012,689	2,816	1,318,318
Capital Assets:				
Land	86,758	55,196	8,494	150,448
Infrastructure			33,680	33,680
Buildings			95,327	95,327
Utility Plant in Service	2,145,315	6,709,503		8,854,818
Machinery and Equipment	99,236		60,779	160,015
Construction in Progress	428,226	248,585	16,002	692,813
Utility Property Leased		18,785		18,785
Nuclear Fuel - Net		302,379		302,379
Non-utility Property - Land		12,599		12,599
Total	2,759,535	7,347,047	214,282	10,320,864
Less: Accumulated Depreciation	743,692	2,725,483	29,422	3,498,597
Net Capital Assets	2,015,843	4,621,564	184,860	6,822,267
Assets Held for Resale	8,147			8,147
Prepaid Rent Long Term-Leaseback		535,972		535,972
Unamortized Debt Expense	9,350	25,576		34,926
Total Assets	$ 2,398,466	$ 6,823,236	$ 229,067	$ 9,450,769

The accompanying notes are an integral part of these financial statements.

CITY OF SAN ANTONIO, TEXAS

STATEMENT OF NET ASSETS
COMPONENT UNITS
AS OF SEPTEMBER 30, 2004
(In Thousands)

LIABILITIES	SAN ANTONIO WATER SYSTEM	CITY PUBLIC SERVICE	NONMAJOR COMPONENT UNITS	TOTAL
Current Liabilities:				
Accounts Payable and Other Current Liabilities	$ 25,503	$ 166,724	$ 15,122	$ 207,349
Deferred Revenues			2,492	2,492
Notes Payable	647		715	1,362
Due to Other Governmental Agencies			1,107	1,107
Total Current Liabilities (Payable from Current Assets)	26,150	166,724	19,436	212,310
Current Liabilities (Payable from Restricted Assets):				
Accrued Bond and Certificate Interest	6,311			6,311
Current Portion of Bonds and Certificates	7,735	121,245		128,980
Other Payables	16,774		3,858	20,632
Total Current Liabilities (Payable from Restricted Assets)	30,820	121,245	3,858	155,923
Total Current Liabilities	56,970	287,969	23,294	368,233
Noncurrent Liabilities:				
Revenue Bonds (Net of Current Portion)	1,040,710	2,501,225		3,541,935
Commercial Paper	269,000	350,000		619,000
Unamortized Premium on New Series Bonds	7,955	103,956		111,911
Plus: Unamortized Discount on New Series Bonds	(13,753)			(13,753)
Deferred Amount on Refunding	(24,004)	(158,721)		(182,725)
Long-Term Lease/Notes Payable	2,012	611,015	77,606	690,633
Other Payables	1,390	298,416	1,574	301,380
Total Noncurrent Liabilities	1,283,310	3,705,891	79,180	5,068,381
Total Liabilities	1,340,280	3,993,860	102,474	5,436,614
NET ASSETS				
Invested in Capital Assets, net of related debt	972,501	1,722,770	95,065	2,790,336
Restricted for Renewal and Replacement		617,989	2,202	620,191
Restricted for Debt Service	5,156	13	4,799	9,968
Restricted for Conservation	5,823	152,765	95	158,683
Unrestricted	74,706	335,839	24,432	434,977
Total Net Assets	$ 1,058,186	$ 2,829,376	$ 126,593	$ 4,014,155

The accompanying notes are an integral part of these financial statements.

STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE YEAR ENDED SEPTEMBER 30, 2004
(In Thousands)

		Program Revenues		Net (Expense) Revenue and Changes In Net Assets			
	EXPENSES	CHARGES FOR SERVICES	CAPITAL GRANTS AND CONTRIBUTIONS	SAN ANTONIO WATER SYSTEM	CITY PUBLIC SERVICE	NONMAJOR COMPONENT UNITS	TOTALS
San Antonio Water System	$ 256,440	$ 241,085	$ 66,291	$ 50,936	$	$	$ 50,936
City Public Service	1,542,449	1,503,814	47,191		8,556		8,556
Nonmajor Component Units	50,767	12,112	34,836			(3,819)	(3,819)
Total	$ 1,849,656	$ 1,757,011	$ 148,318	50,936	8,556	(3,819)	55,673
General Revenues:							
Investment Earnings				5,659	66,697	709	73,065
(Loss) on Disposal of Capital Assets				(389)		(5,667)	(6,056)
Miscellaneous					3,073	3,692	6,765
Total General Revenues				5,270	69,770	(1,266)	73,774
Change in Net Assets				56,206	78,326	(5,085)	129,447
Net Assets - Beginning				1,000,559	2,751,050	130,887	3,882,496
Prior Period Adjustment				1,421		791	2,212
Net Assets - Ending				$ 1,058,186	$ 2,829,376	$ 126,593	$ 4,014,155

The accompanying notes are an integral part of these financial statements.

TABLE OF NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of San Antonio (City) have been prepared in conformance with generally accepted accounting principles (GAAP) for local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted body for establishing governmental accounting and financial reporting standards. The following is a summary of significant accounting policies of the City.

A. Reporting Entity

In the evaluation of how to define the City for financial reporting purposes, management considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14, "The Financial Reporting Entity," as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units—an amendment of GASB Statement No. 14". The underlying concept of the financial reporting entity is that elected officials are "accountable" to their constituents for their actions. One of the objectives of this concept is to provide users of governmental financial statements with a basis for assessing the accountability of those elected officials, and accordingly, the definition of the financial reporting entity is based on accountability.

The financial reporting entity consists of: (a) the primary government (in these financial statements the primary government is the City), (b) component units, which are legally separate organizations for which the City is financially accountable (blended), and (c) component units, which the nature and significance of their relationship with the City is such that exclusion from the reporting entity's financial statements would be misleading or incomplete (discretely presented).

Using the criteria of GASB Statement No. 39 and Statement No. 14 outlined below, potential component units were evaluated for inclusion in or exclusion from the reporting entity, whether the organizations were financially accountable or not, and were further evaluated for financial statement presentation. Based on their individual relationships with the City, some component unit financial statements were blended as though they are part of the City and others only discretely presented.

The following criteria (as set forth in GASB Statement No. 14 and Statement No. 39) were used in the evaluation of potential component units of the City:

1) Legally separate

2) Financial accountability
   a) Appointment of a voting majority
   b) Imposition of will
   c) Financial benefit to or burden on the City
   d) Fiscal dependency

3) The relationship with the City is such that exclusion would cause these financial statements to be misleading or incomplete.

4) Service rendered by the potential component unit is provided entirely or almost entirely to the City.

5) The City, or its component units, are entitled to, or have the ability to access, the majority of the resources received or held by the separate organization.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

The criteria outlined above were excerpted from GASB Statement No. 14 and Statement No. 39. For a more detailed explanation of the criteria established by the statements, we refer the reader to the Codification of Governmental Accounting and Financial Reporting Standards, as of June 30, 2004, published by GASB, Section 2600. GASB Statement No. 39 further clarifies that a not-for-profit may not be financially accountable to the City, but may be considered a component unit based on the nature and significance of their relationship with the City. Based upon the application of the criteria outlined above, the following is a brief overview of component units included in the reporting entity:

Blended with the Primary Government (the relationship among the following component units and the City meet the criteria, as set forth in GASB Statement No. 14 and Statement No. 39, for inclusion in the Reporting Entity and is such that the financial statements are blended in with those of the City):

As set forth in GASB Statement No. 34, "Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments", the City excludes fiduciary funds and component units that are fiduciary in nature from the government-wide financial statements. The City's component units that are fiduciary in nature are the San Antonio Fire and Police Pension Fund and the San Antonio Fire and Police Retiree Health Care Fund. These component units are presented in the Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets.

City of San Antonio Health Facilities Development Corporation

The City of San Antonio Health Facilities Development Corporation (HFDC) was established by Ordinance No. 55400, dated June 3, 1982, in accordance with state laws for the purposes of, and to act on behalf of, the City as a health facilities development corporation under the Texas Health Facilities Development Act of 1981. The HFDC is authorized to issue tax-exempt health facility revenue bonds, for which the City is not obligated in any manner to finance health related projects in support of the promotion, expansion, and improvement of health facilities. The HFDC is governed by a Board of Directors, which is comprised of the City Council of the City of San Antonio.

City of San Antonio Industrial Development Authority

The City of San Antonio Industrial Development Authority (IDA) was established by Resolution No. 79-48-100 dated October 11, 1979, in accordance with state laws for the purposes of benefiting and accomplishing public purposes of, and to act on behalf of, the City as an industrial development corporation under the Development Corporation Act of 1979. The IDA is authorized to issue tax-exempt industrial revenue bonds, for which the City is not obligated in any manner, to finance qualified projects which may further the promotion and development of commercial, industrial, and manufacturing enterprises to promote and encourage employment and the public welfare. The IDA is governed by a Board of Directors, which is comprised of the City Council of the City of San Antonio.

San Antonio Fire and Police Pension Fund

The San Antonio Fire and Police Pension Fund (Pension Fund) is a Single Employer Defined Benefit Plan established in accordance with state law. The Pension Fund is administered by a nine member Board of Trustees, including three City Council members. The City and Pension Fund participants are obligated to make all contributions to the Pension Fund in accordance with rates established by state law. Benefit levels are also set by state law. Services rendered by the Pension Fund are exclusively for the benefit of eligible firefighters and police officers upon retirement.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

San Antonio Fire and Police Retiree Health Care Fund

The City of San Antonio Firefighters' and Police Officers' Retiree Prefunded Group Health Plan was created in October 1989, in accordance with the provisions of the City's contracts with the local fire and police unions, respectively, to provide postemployment healthcare benefits to uniformed employees who retired on or after October 1, 1989. Pursuant to the passage of Senate Bill 1568 in 1997, a separate and distinct statutory trust, the Fire and Police Retiree Health Care Fund (Health Fund), was created to provide these postemployment healthcare benefits for eligible uniformed employees of the City. The Health Fund is administered by a nine-member board of trustees, including three City Council Members, and is funded primarily by contributions from the City and contributions made by active and retirees on behalf of their dependents. The City and active and retiree contribution rates are established pursuant to the Fire and Police collective bargaining agreements.

City of San Antonio Texas Municipal Facilities Corporation

The City of San Antonio Texas Municipal Facilities Corporation (TMFC) was established in fiscal year 2001 in accordance with state law for the purposes of and to act on behalf of the City in acquisition, construction, equipping, financing, operation and maintenance of land and other municipal facilities for the City. The TMFC is governed by a Board of Directors, which is comprised of the City Council of the City of San Antonio.

City of San Antonio Texas Starbright Industrial Development Corporation

The City of San Antonio Texas Starbright Industrial Development Corporation (TSIDC) was established in fiscal year 2003 in accordance with state law for the purposes of and to act on behalf of the City in the promotion and development of commercial, industrial and manufacturing enterprises to promote and encourage employment and the public welfare, including but not limited to the acquisition of land. The TSIDC is governed by a Board of Directors, which is comprised of the City Council of the City of San Antonio.

Discretely Presented With the Primary Government (the relationship among the following component units and the City is such that they meet the criteria, as set forth in GASB Statement No. 14 and Statement No. 39, for inclusion in the reporting entity, and accordingly are included, however are such that the financial statements are discretely presented alongside, but not blended with those of the City):

San Antonio Water System

On February 13, 1992, the City Council determined it was in the best interest of the citizens of San Antonio and the customers served by the water and wastewater utilities to consolidate all water utilities, agencies, and activities into one institution. It was determined that the best mechanism for effecting the consolidation of all water systems, agencies, and activities into a single institution was through a refunding of all the then outstanding water and sewer bonds. The consolidation was consummated on May 19, 1992, with the creation of the San Antonio Water System (SAWS) that included the former City Water Board, Alamo Water Conservation and Re-use District, and the City's Sewer and Stormwater system.

Additionally, it was further determined by the City Council that the interests of the citizens and customers could best be served by placing authority for management and control of SAWS, as consolidated, in a Board of Trustees. This Board of Trustees includes the City's Mayor as an ex-officio member along with six members appointed by the City Council for four year staggered terms. The rates for user charges and bond issuance authorizations are approved by the City Council.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

City Public Service

City Public Service (CPS), a municipally owned utility, provides electricity and natural gas to San Antonio and the surrounding areas. CPS is governed by a Board of Trustees, which is comprised of four members appointed by City Council and the Mayor of the City as an ex-officio member. The rates for user charges and bond issuance authorizations are approved by the City Council.

San Antonio Development Agency

The San Antonio Development Agency (SADA) was created under the provisions of the Urban Renewal Law of the State of Texas. SADA is responsible for implementing the City's Urban Renewal Program and may designate, for urban renewal, such areas, as it deems advisable, subject to approval by the City Council and the Federal Agency, which administers the overall program. SADA receives a majority of its operating funds from the City as pass-through grant funds and is governed by a seven member Board of Commissioners appointed by the City Council.

San Antonio Education Facilities Corporation

The City of San Antonio Higher Education Authority (SAHEA) was established in 1984, in accordance with state laws for the purpose of aiding nonprofit institutions of higher education in providing educational, housing, and other related facilities in accordance with and subject to the provisions of Section 53.35 (b) Texas Education Code, all to be done on behalf of the City and as its duly constituted authority and instrumentality. In 2001, the SAHEA changed its name to the San Antonio Education Facilities Corporation (SAEFC). The Act authorizes the SAEFC to issue revenue bonds for these purposes on behalf of the City but the bonds are not obligations of the City. SAEFC is governed by an eleven member Board of Directors appointed by the City Council for two-year terms. Board members are subject to removal by the City Council for cause or at will and the City reserves the right to terminate and dissolve the SAEFC at any time.

Greater Kelly Development Authority

The Greater Kelly Development Corporation (GKDC) was established in 1996 as the local development authority on an interim basis under the Development Corporation Act of 1979 for the development and redevelopment of Kelly Air Force Base (Kelly). In November 1999, the City established the Greater Kelly Development Authority (GKDA) as the successor-in-interest to the GKDC pursuant to the newly enacted Senate Bill 655. In accordance with the Act, the GKDA will have the powers previously enjoyed by the GKDC while at the same time clarifying such powers and preserving the property tax exempt status of prior commercial tenants at Kelly. The GKDA is a special district and political subdivision of the State of Texas and was established for the purpose of monitoring the proposed closing of Kelly; conducting comprehensive studies of all issues related to the closure, conversion, redevelopment, and future use of Kelly; reviewing all options relative to the most appropriate uses of Kelly and the surrounding area; formulating and adopting a comprehensive plan for the conversion and redevelopment of Kelly and submitting such plan to the appropriate agency or agencies of the federal government; and implementing such plan as it relates to Kelly and the surrounding area. The GKDA is governed by an eleven member Board of Directors, appointed by the City Council. The City Council also has the ability to remove appointed members of the organization's governing board at will. The GKDA is authorized to issue bonds to finance any project as permitted by Texas Law, but said bonds are not obligations of the City.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

San Antonio Housing Trust Foundation, Inc.

The San Antonio Housing Trust Foundation, Inc. (SAHTF) is a non-profit corporation incorporated in 1990 under the laws of the State of Texas. SAHTF was organized for the purposes of supporting charitable, educational, and scientific undertakings, specifically for providing housing for low and middle income families and to provide administrative and other support for the operations of the City of San Antonio Housing Trust Fund, a Permanent Fund of the City. The Housing Trust Fund was established by the City for the purposes of providing additional and continuing housing opportunities for low and moderate-income families; promoting public health, safety, convenience, and welfare; and revitalizing neighborhoods and the downtown area through appropriate housing activities. SAHTF is governed by an eleven member Board of Directors appointed by the City Council. SAHTF administers The San Antonio Housing Trust Finance Corporation. The City has the ability to appoint, hire, reassign, or dismiss those persons responsible for the day-to-day operations of the SAHTF as it authorizes a contract for the administration and management of the operations on an annual basis.

San Antonio Local Development Company, Inc. dba South Texas Business Fund (STBF)

The San Antonio Local Development Company Inc. (SALDC) is a non-profit corporation organized in 1978 under the laws of the State of Texas and the auspices of the City. In 2004, SALDC changed its name to the San Antonio Local Development Company dba South Texas Business Fund (STBF). The STBF also expanded the area served from twelve counties to all of the counties in the state of Texas. STBF was formed to participate in the Neighborhood Business Revitalization Program (NBRP), which is co-sponsored by the Small Business Administration (SBA), the Economic Development Administration, and the U.S. Department of Housing and Urban Development (HUD). STBF is governed by a thirty-three member Board of Trustees, appointed by the City Council, and an eleven member Board of Directors appointed from the Board of Trustees. STBF, under agreement with the City, administers and operates a revolving loan fund, NBRP, that provides qualifying local businesses with loans under economic development programs administered by the SBA. STBF also administers, by agreement with the City, a U.S. Department of Commerce Title IX Revolving Loan Fund, SBA MicroLoan Program, and a HUD 108 Fund. Currently, STBF has an outstanding note payable to HUD, which is guaranteed by the City.

Brooks Development Authority

The Brooks Development Authority (BDA) is a special district and political subdivision of the State of Texas. It was established on September 27, 2001, as a defense base development authority in accordance with state law for the purposes of and to act on behalf of the City in improving mission effectiveness, reduce the cost of providing quality installation support through improved capital asset management and promote economic development on Brooks Air Force Base and in the surrounding community. An eleven member Board of Directors appointed by the City Council governs the BDA for two-year terms and will oversee the Brooks Technology and Business Park in support of the Brooks City-Base Project. The City has the ability to impose its will on this organization as the City Council has the power to remove board members by adopting a resolution.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

Essential disclosures related to the above mentioned discretely presented and blended component units are included in the complete financial statements of each of the individual component units. These statements may be obtained at the respective entity's administrative office. The addresses are as follows:

Discretely Presented Component Units

San Antonio Water System
P.O. Box 2449
San Antonio, Texas 78298
Contact Person: Stacey L. Isenberg
Telephone No. (210) 704-7431

City Public Service
P.O. Box 1771
San Antonio, Texas 78296-1771
Contact Person: Richard E. Williamson
Telephone No. (210) 353-2397

San Antonio Development Agency
P. O. Box 831386
San Antonio, Texas 78283-1386
Contact Person: Felix Lopez
Telephone No. (210) 207-5444

San Antonio Education Facilities Corporation
P.O. Box 830504
San Antonio, Texas 78283-0504
Contact Person: Ramiro Cavazos
Telephone No. (210) 207-8040

Greater Kelly Development Authority
143 Billy Mitchell Blvd., Ste 6
San Antonio, Texas 78226
Contact Person: Bruce Miller
Telephone No. (210) 362-7800

San Antonio Housing Trust Foundation, Inc.
2515 Blanco Rd.
San Antonio, Texas 78212
Contact Person: John Kenny
Telephone No. (210) 735-2772

San Antonio Local Development Company Inc.
dba South Texas Business Fund
P.O. Box 830505
San Antonio, Texas 78283-0505
Contact Person: Ramiro Cavazos
Telephone No. (210) 207-8040

Brooks Development Authority
8030 Challenger Drive
Brooks City-Base, Texas 78235
Contact Person: Virginia Cobarrubias
Telephone No. (210) 536-6710

Blended Component Units

San Antonio Health Facilities Development Corporation
P.O. Box 830504
San Antonio, Texas 78283-0504
Contact Person: Ramiro Cavazos
Telephone No. (210) 207-8040

San Antonio Industrial Development Authority
P.O. Box 830504
San Antonio, Texas 78283-0504
Contact Person: Ramiro Cavazos
Telephone No. (210) 207-8040

San Antonio Fire and Police Retiree Health Care Fund
300 Convent Street, Suite 2500
San Antonio, Texas 78205
Contact Person: Paul Villarreal
Telephone No. (210) 220-1385

San Antonio Fire and Police Pension Fund
311 Roosevelt
San Antonio, Texas 78210-2700
Contact Person: Warren Schott
Telephone No. (210) 534-3262

San Antonio Texas Municipal
Facilities Corporation
P.O. Box 839966
San Antonio, Texas 78283
Contact Person: Milo Nitschke
Telephone No. (210) 207-8620

San Antonio Texas Starbright Industrial
Development Corp.
P.O. Box 839966
San Antonio, TX 78283
Contact Person: Milo Nitschke
Telephone No. (210) 207-8620

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

It is management's belief that to exclude essential disclosures from the City's financial statements as they pertain to CPS and SAWS would be misleading. CPS and SAWS have been identified as major discretely presented component units both as they relate to total component units and to the primary government. Therefore, relevant disclosures have been included in the City's financial statements. Discretely presented component units with different fiscal year ends from the City are the San Antonio Water System with a fiscal year-end of December 31, and City Public Service with a fiscal year-end of January 31.

Related Organizations

The City Council appoints the members to the Board of Directors for the San Antonio Housing Authority. However, the City's accountability for this entity does not extend beyond making appointments to the Board of Directors and the coordination and approval of strategic plans.

B. Basic Financial Statements – GASB Statement No. 34

Effective October 1, 2001, the City implemented the provisions of GASB Statement No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments". In fiscal year 2003, the City implemented the portion of GASB Statement No. 38, "Certain Financial Statement Note Disclosures" relating to the disaggregation of receivable and payable balances. These statements comply with the requirements of the new reporting model.

Government-wide and Fund Financial Statements

The basic financial statements include three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The government-wide financial statements report information on all non-fiduciary activities of the primary government and its component units. Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities. As part of the implementation of GASB Statement No. 34, the City has early implemented requirements for infrastructure reporting. GASB Statement No. 34 requires the historical cost of infrastructure assets, retroactive to 1980, to be included as part of the capital assets, as well as the related depreciation, to be reported in the government-wide financial statements. In addition, for the most part, the effect of interfund activity has been removed from the statements.

The Statement of Net Assets reflects both short-term and long-term assets and liabilities. In the Government-wide Statement of Net Assets governmental activities are reported separately from business-type activities. Governmental activities are supported by taxes and intergovernmental revenues whereas business-type activities are normally supported by fees and charges for services. Long-term assets, such as capital assets, infrastructure assets, and long-term obligations are now reported with the assets of governmental activity. The components of net assets, previously shown as fund balances, are presented in three separate components; 1) Invested in Capital Assets, net of related debt, 2) Restricted, and 3) Unrestricted. Interfund receivables and payables between governmental and business-type activities have been eliminated in the government-wide Statement of Net Assets, which minimizes the duplicating of assets and liabilities within the governmental and business-type activities. Component units are reported in the Statement of Net Assets as well.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basic Financial Statements – GASB Statement No. 34 (Continued)

Government-wide and Fund Financial Statements (Continued)

The Statement of Activities reflects both the gross and net cost format. The net cost (by function or business-type activity) is usually covered by general revenues (property tax, sales tax, intergovernmental revenues, etc.). Direct (gross) expenses of a given function or segment are offset by program revenues, and operating and capital grants. Program revenues must be directly associated with the function of business-type activity. The presentation allows users to determine which functions are self-supporting, and which rely on the tax base in order to complete their mission. Internal service fund balances, whether positive or negative, have been eliminated against the expenses and program revenues shown in the governmental and business-type activities of the Statement of Activities.

A reconciliation detailing the change in net assets between the government-wide financial statements and the fund financial statements is presented separately for governmental funds. In order to achieve a break-even result in the internal service fund activity, differences in the basis of accounting and reclassifications are allocated back to user departments. These allocations are reflected in the government-wide statements. Any residual amounts of the internal service funds are reported in the governmental activity column.

The proprietary funds have a reconciliation presented in the proprietary funds' Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Fund Net Assets. The only reconciling item is the internal service fund allocation.

C. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets and other debits, liabilities, fund equity and other credits, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The City has three types of Funds: Governmental Funds, Proprietary Funds, and Fiduciary Funds. The Fund Financial Statements provide more detailed information about the City's most significant funds, but not on the City as a whole. Major individual governmental funds and major enterprise funds are reported separately in the Fund Financial Statements. Nonmajor funds are independently presented in the combining statements.

The criteria used to determine if a governmental or enterprise fund should be reported as a major fund is a follows: The total assets, liabilities, revenues or expenditure/expenses of that individual governmental or enterprise fund are at least 10% of the corresponding total for all funds of that category or type (that is, total governmental or total enterprise funds), and total assets and liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 5% of the corresponding total for all governmental and enterprise funds combined.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Accounting (Continued)

The following is a brief description of the major governmental funds that are each presented in a separate column in the fund financial statements:

The General Fund is always presented as a major fund.

The Debt Service Fund accounts for the accumulation of resources for, and the payment of general long-term debt principal, interest and related costs except that which is accounted for in proprietary type funds.

The following is a brief description of the major enterprise funds that are each presented in a separate column in the fund financial statements:

The Airport System accounts for the operation of the San Antonio International Airport and Stinson Municipal Airport. Financing for the Airport System operations is provided by user fees.

The Parking System accounts for the operations of the City's parking facilities. Financing for the Parking Facilities Operations is provided by user fees.

1. Governmental Funds

General Fund - The General Fund of the City is the primary operating fund, which accounts for all financial resources of the general government except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than private-purpose trusts and major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Capital Projects Funds - Capital Projects Funds are used to account for the financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds and Trust Funds).

Permanent Funds - Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs - that is, for the benefit of the government or its citizenry.

2. Proprietary Funds

Enterprise Funds - Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis should be financed or recovered primarily through user charges.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Accounting (Continued)

2. Proprietary Funds (Continued)

Internal Service Funds - Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governmental units, on a cost-reimbursement basis. The City's self-insurance programs, data processing programs, and other internal service programs are accounted for in this fund.

3. Fiduciary Funds

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, or other funds. These include Pension Trust, Retiree Health Care Trust, Private Purpose Trust Funds, and Agency Funds. Pension Trust, Retiree Health Care Trust, and Private Purpose Trust Funds are accounted for in essentially the same manner as proprietary funds since capital maintenance is critical. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

D. Measurement Focus and Basis of Accounting

The government-wide financial statements present information about the City as a whole. Government-wide financial statements exclude both fiduciary funds and fiduciary component units. The statement of net assets and the statement of activities are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The City recognizes revenue from property taxes when collected and those taxes expected to be collected within 60 days after the period end, along with related interest and penalties. For additional disclosure related to property taxes see Note 2. Other taxes and fees are recognized as revenue in the year they are earned. Revenue from grants and similar items are recognized in the fiscal year the qualifying expenditures are made and all other eligibility requirements have been satisfied.

Program Revenues are presented in the Government-wide Statement of Activities. The City reports program revenues into three categories: 1) Charges for services, 2) Operating grants and contributions and 3) Capital grants and contributions. (Further descriptions of these three categories follow.) They are presented separately as a reduction of the total expense to arrive at the net expense of each functional activity. Program revenues are revenues generated by transactions with outside parties who purchase, use, or directly benefit from a program. They also include amounts such as grants and contributions received from outside parties that restrict the use of those funds to specific programs. Investment earnings that are legally restricted to specific programs are also reported as program revenues.

1) Charges for services are revenues that are generated by those who purchase goods or services from the City. Examples of charges for services include airport landing fees, solid waste collection and disposal fees, vacant lot clean up, golf course fees, and food establishment licenses. Fines and forfeitures are also reported under charges for services.

2) Operating grants and contributions are those revenues that are restricted in the way they may be spent - either for operations of a particular program or to purchase a capital asset for a particular program.

3) Capital grants and contributions are also restricted revenues; the funds may only be spent to purchase capital assets for specified programs.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus and Basis of Accounting (Continued)

All governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. This means that only current assets and current liabilities are generally included on their balance sheets. Revenues are recognized in the accounting period in which they become available and measurable. For this purpose, the City considers revenues, other than grants, to be available if the revenues are collected within sixty days after year-end. Grant revenues are recognized when reimbursable expenditures are made and all other eligibility requirements imposed by the provider are met. Grant funds received in advance and delinquent property taxes are recorded as deferred revenue until earned and available. Gross receipts and sales taxes are considered available when in the hands of intermediary collecting governments and are recognized at that time. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain. Expenditures are recognized in the accounting period in which the fund liability is incurred. However, compensated absences, debt service expenditures, claims and judgments and arbitrage rebate are recorded only when the liability is matured.

The reported fund balance (net current assets) for each fund is considered a measure of "current financial resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "current financial resources" during the period.

Special reporting treatments are applied to governmental fund inventories and prepaid expenditures to indicate that they do not represent "current financial resources," since they do not represent net current assets. Such amounts are generally offset by fund balance reserve accounts.

Proprietary, Pension Trust, Private Purpose Trust, and Retiree Health Care Funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses and related liabilities, including claims, judgments, and compensated absences, are recognized when they are incurred. These funds are accounted for on a cost of services or "economic resources" measurement focus. Consequently, all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. The reported Proprietary Fund net assets are segregated into three components: 1) invested in capital assets, net of related debt, 2) restricted net assets and 3) unrestricted net assets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net assets.

Proprietary funds report both operating and nonoperating revenues and expenses in the Statement of Revenues, Expenses, and Changes in Fund Net Assets. The City defines operating revenues as those receipts generated by a specified program offering either a good or service. For example, parking garage and street lot fees are operating revenues of the Parking Fund. This definition is consistent with GASB Statement No. 9, which defines operating receipts as cash receipts from customers and other cash receipts that do not result from transactions defined as capital and related financing, non-capital financing or investing activities. Operating expenses include personnel services, contractual services, commodities, other expenses (such as insurance), and depreciation. Revenues and expenses not fitting the above definitions are considered nonoperating.

The City's enterprise funds, pension trust, private purpose trust and retiree health care funds and business-type activities, as well as its discretely presented component units apply all applicable GASB Statements as well as FASB Statements and Interpretations, APB Opinions, and ARBs issued on or before November 30, 1989, in accordance with GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting." The City and its discretely presented major proprietary component units, CPS and SAWS, have elected not to apply any FASB Statements and Interpretations issued after November 30, 1989.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus and Basis of Accounting (Continued)

CPS' operating revenue includes receipts from energy sales and miscellaneous revenue related to the electric and gas systems operations. Miscellaneous revenue includes late payment fees, rental income, jobbing and contract work, ancillary services, and merchandise sales. Operating expenses include those expenses that result from the ongoing operations of the electric and gas systems. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Nonoperating revenues consist primarily of investment income, including the changes in fair value of investments. The amortization of net gains from the lease-leaseback and the sale of water rights in prior years are also included. Some miscellaneous income from renting general property and miscellaneous service is also recorded in nonoperating when it's not directly identified with the electric or gas systems.

SAWS' principal operating revenues are charges to customers for water and wastewater services. Operating expenses include the cost of service, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Nonoperating revenues consist primarily of investment income, including the changes in fair value of investments. Some miscellaneous income from renting general property and miscellaneous service is also recorded in nonoperating when it's not directly identified with the water or wastewater services.

E. Future GASB Implementations

GASB Statement No. 40, "Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3", addresses deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. The provisions of this Statement are effective for fiscal years beginning after June 15, 2004.

GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", establishes accounting and financial reporting standards for the service utility of an asset which has declined significantly and unexpectedly. The provisions of this Statement are effective for fiscal periods beginning after December 15, 2004.

GASB Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans", establishes uniform financial reporting standards for other postemployment benefits (OPEB) plans and supersedes the interim guidance included in Statement No. 26. GASB Statement No. 43 follows a similar approach to GASB Statement No. 25 with modifications to reflect differences between pension plans and OPEB plans. The provisions of this Statement are effective for fiscal periods beginning after December 15, 2005.

GASB Statement No. 44, "Economic Condition Reporting: The Statistical Section", an amendment of NCGA Statement 1, addresses new standards to improve the understandability and usefulness of the information that state and local governments present as supplementary information in the statistical section. The provisions of this Statement are effective for fiscal periods beginning after June 15, 2005.

GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions", establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. The provisions of this Statement are effective for fiscal periods beginning after December 15, 2006.

(amounts are expressed in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Future GASB Implementations (Continued)

GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation", helps governments determine when net assets have been restricted to a particular use by the passage of enabling legislation, and specifies how those net assets should be reported in financial statements when there are changes in the circumstances surrounding such legislation. The provisions of this Statement are effective for fiscal periods beginning after June 15, 2005.

The City has not fully determined the effect that implementation of Statements No. 40 and 42-46 will have on the City's financial statements.

F. Cash and Cash Equivalents and Investments

The City's investment practices are governed by state statutes and by the City's Investment Policy. City cash is required to be deposited in FDIC-insured banks located within the State of Texas. A pooled cash and investment strategy is utilized which enables the City to have one central depository. Investments are pooled into two primary categories, operating funds and debt service funds. The balances in these funds are invested in an aggregate or pooled amount with principal and interest income distributed to each respective fund on a pro rata basis. In addition, the City may purchase certain investments with the available balance of a specific fund for the sole benefit of such fund. As of September 30, 2004, the City's investment portfolio did not contain any derivative products nor is it leveraged in any way, except as noted in the Fire and Police Pension Fund. For a listing of authorized investments, see Note 3.

The City, CPS, and SAWS account for and report investments in accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." The Fire and Police Pension Plan and the Fire and Police Health Care Fund report investments at fair value in accordance with GASB Statement No. 25 "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans." The City's policy with respect to money market investments, which had a remaining maturity of one year or less at the time of purchase, is to report those investments at amortized cost, which approximates fair value. Amortization of premium or accretion of discount is recorded over the term of the investments.

For purposes of the statement of cash flows, the City, SAWS, and CPS consider all highly liquid investments with an original maturity of approximately ninety days or less to be cash equivalents.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Inventories and Prepaid Items

Inventories of materials and supplies consist principally of expendable items held for consumption and are stated at cost, based on first-in, first-out and lower of average cost or market methods. For governmental and proprietary fund types, the "consumption" method is used to account for inventories. Under the consumption method, inventory acquisitions are recorded in inventory accounts and charged as expenditures (governmental fund types) or expenses (proprietary fund types) when used.

Prepaid items are goods and services that are paid for in advance. These payments reflect costs applicable to future accounting periods, and are recorded in both government-wide and fund financial statements. Using the consumption method, prepaid items are charged as expenditures for governmental funds and as expenses for proprietary funds as the goods or services are used.

H. Capital Assets and Depreciation

1. Primary Government (City)

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Capital assets recorded under capital leases are recorded at the present value of future minimum lease payments. Depreciation on all exhaustible capital assets of the City is charged as an expense with accumulated depreciation being reported on the Statement of Net Assets. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. With the implementation of GASB Statement No. 34, the City has established capitalization thresholds for infrastructure and machinery and equipment that include computer equipment. All infrastructure assets are reported in the financial statements and the estimated useful lives and capitalization thresholds applied are as follows:

Assets	Useful Life Years	Capitalization Threshold
Buildings	15-40	$100
Improvements (Other than buildings)	20-40	$100
Machinery and Equipment	2-20	$5
Furniture and Office Equipment	5-10	$5
Infrastructure	15-100	$250

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(amounts are expressed in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets and Depreciation (Continued)

2. City Public Service (CPS)

The CPS utility plant is stated at the cost of construction, including costs of contracted services, direct equipment, material and labor, indirect costs, including general engineering, labor, equipment, and material overheads, and an allowance for funds used during construction (AFUDC). CPS computes AFUDC using rates that approximate the cost of borrowed funds, or the short-term investment rate for other funds used for construction. AFUDC is applied to projects estimated to require 30 days or more to complete.

CPS computes depreciation using the straight-line method over the estimated service lives of the depreciable property using specifically identified service lives for each asset type. In 2003, a depreciation study was conducted to determine if existing depreciation rates remained applicable to the depreciable property groups. New rates were applied beginning in 2003. Total depreciation and depletion as a percentage of total depreciable assets net of nuclear fuel was 3.40% in 2004.

CPS amortizes its share of nuclear fuel for the South Texas Project (STP) to fuel expense on a unit-of-production method. Under the Nuclear Waste Policy Act of 1982, the federal government assumed responsibility for the permanent disposal of spent nuclear fuel. CPS is charged a fee for disposal of spent nuclear fuel, which is based upon CPS' share of the STP generation that is available for sale to CPS customers. The charge is included in fuel expense monthly. For further discussion regarding the STP, see Note 10.

The estimated useful lives of capital assets are as follows:

Buildings and structures	15-60 years
Systems and improvements:	
Generation	8-45 years
Transmission and distribution	20-55 years
Gas	50-65 years
Machinery and equipment	4-30 years
Lignite mineral rights and other	20-40 years
Nuclear fuel	1-2 years

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets and Depreciation (Continued)

3. San Antonio Water System (SAWS)

The SAWS' capital assets in service are recorded on the unit cost equal to or greater than $1. Assets acquired through capital leases are recorded on the cost basis and are included in utility plant in service. Assets acquired through contributions, such as those from land developers, are capitalized and recorded in the plant accounts at estimated fair value at date of donation. SAWS capitalizes certain interest costs on revenue bonds and commercial paper associated with newly constructed utility plant additions. Maintenance, repairs, and minor renewals are charged to operating expense, while major plant replacements are capitalized.

SAWS' capital assets are depreciated and property under capital lease is amortized on the straight-line method. This method is applied to all individual assets except distribution mains. Groups of mains are depreciated on the straight-line method using rates estimated to fully depreciate the costs of the asset group over their estimated average useful lives. The table below shows estimated average useful lives used in providing for depreciation of the SAWS' capital assets:

Structures and improvements	50 years
Pumping and purification equipment	10 - 50 years
Distribution and transmission system	25 - 50 years
Collection system	50 years
Treatment facilities	25 years
Equipment and machinery	5 - 20 years
Furniture and fixtures	10 years
Computer equipment	5 years
Software	3 years

I. General Bonded Debt Service

The ad valorem tax rate is allocated each year between the General Fund and the Debt Service Fund. Amounts estimated to be required for debt service on general bonded debt are provided by allocated property taxes, interest earned within the Debt Service Fund, and transfers from other funds.

J. Compensated Absences

In the governmental fund financial statements, the City accrues annual leave and associated employee related costs when matured (payable from available resources) for City non-uniformed employees and uniformed fire and police employees. In addition, the City accrues the matured portion of the City's uniformed fire and police employees accrued sick leave pay, holiday pay, and bonus pay. Compensatory time is also accrued for the matured portion of the City's non-uniformed non-exempt employees as well as uniformed police officers.

For governmental fund types, the matured current portion of the liability resulting from the accrual of these compensated absences is recorded in the respective governmental fund and reported in the fund financial statements, while the entire vested liability is reported in the government-wide financials. The current and long-term portions of the liability related to proprietary fund types are accounted for in the respective proprietary fund.

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(amounts are expressed in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Insurance

Activity for the City's self-insurance programs is recorded in the Internal Service Funds. Assets and obligations related to property and casualty liability, employee health benefits, workers' compensation, unemployment compensation, extended sick leave, and employee wellness are included.

The City is insured for property and casualty liability. As of the fiscal year end, Allianz Insurance Company and RSUI Indemnity Company insured the City's property, while the State National Insurance Company provided excess liability coverage. Related liabilities are accrued based on the City's estimates of the aggregate liability for claims made, and claims incurred but not reported prior to the end of the fiscal year.

The City also provides employee health, workers' compensation, and unemployment benefits under its self-insured programs. The City is a member of the Texas Municipal League Workers' Compensation Joint Insurance Fund, and uses this fund as a mechanism for administering workers' compensation claims for employees that occurred prior to September 30, 1986. Workers' compensation claims that occurred after October 1, 1986 are administered by third party administrators. In addition, the City has excess workers' compensation coverage through the State National Insurance Company as of September 30, 2004. The City records all workers' compensation loss contingencies, including claims incurred but not reported.

Employee health benefit liabilities are determined and accrued based upon the City's estimates of aggregate liabilities for unpaid benefits. Regarding unemployment compensation, the City is subject to the State of Texas Employment Commission Act. Under this act, the City's method for providing unemployment compensation is to reimburse the State for claims paid by the State.

All insurance carriers providing coverage for the City are required to possess an A.M. Best Company rating of A- or better; where A- denotes "Excellent". A.M. Best is an industry recognized rating service for insurance companies. For a more detailed explanation of the City's self-insurance programs, see Note 12.

L. Fund Equity

Reservations of fund equity represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund equity represent tentative plans identified by management and are subject to change. Designations are utilized in the City's governmental funds for amounts that have been designated for subsequent year's expenditures and amounts allocated to making future improvements and replacements. Such designations will be reflected on the fund financial statements.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Revenue Recognition

Governmental fund types record revenues on the modified accrual basis of accounting and are reported as such in the fund financial statements. That is, revenues are recorded when they are both measurable and available to finance current operations or when they are considered susceptible to accrual. Revenues from property taxes, sales taxes, municipal court fines and fees, licenses, interest revenue and charges for services are recorded on the modified accrual basis of accounting, and therefore, are considered susceptible to accrual. The City's availability period is no more than 60 days beyond the end of the fiscal year. When collections are delayed beyond the normal time of receipt due to unusual circumstances, the amounts involved are still recognized as revenues of the current period. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Grant revenues are recognized when reimbursable expenditures are made and all other eligibility requirements imposed by the provider have been met. Proprietary-type funds record revenues when earned. In the government-wide financial statements, all revenues are recorded when earned.

CPS revenues are recorded when earned. Customers' meters are read and bills are rendered monthly. Rate schedules include fuel and gas cost adjustment clauses that permit recovery of fuel and gas costs in the month incurred. CPS reports fuel and distribution gas costs on the same basis as it recognizes revenue. SAWS revenues are recognized when earned under the accrual basis.

N. Allocation of Indirect Expenses

The City recovers indirect costs in the General Fund through the application of departmental indirect cost rates. These rates are developed and documented in the City's departmental indirect cost rate plan. In this plan, each department is classified by function. Indirect costs are budgeted by department and are used as a basis for the City's actual indirect cost allocation. Base rates are then applied to actual indirect costs recovered and indirect costs are reclassified to reduce general government expenditures. For fiscal year 2004, general government expenditures were reduced by $7,062, resulting in increased expenditures in other governmental functions and in business-type activities in the amounts of $4,115 and $2,947, respectively.

O. Nuclear Decommissioning

CPS, together with the other owners of the STP, filed with the Nuclear Regulatory Commission (NRC) a certificate of financial assurance for the decommissioning of the nuclear power plant. The certificate assures that CPS will meet the minimum decommissioning funding requirements mandated by the NRC. The STP owners agreed in the financial assurance plan that their estimate of decommissioning costs would be reviewed and updated periodically. In 1995, the owners conducted a review of decommissioning costs. The results estimated CPS' share of decommissioning costs at approximately $270,000 in 1994 dollars. In 1999, the owners conducted an additional review of decommissioning, and results showed that CPS' share of decommissioning costs are now approximately $311,000 in 1998 dollars.

In 1991, CPS started accumulating the decommissioning funds in an external trust, in accordance with the NRC regulations. The Decommissioning Trust assets and related liabilities are included in CPS' financial statements as a component unit. At January 31, 2004, CPS had accumulated approximately $211,100 of decommissioning funds in the external trust. Based on the annual calculation of financial assurance required by the NRC, CPS' trust balance exceeded the calculated financial assurance amount of $70,400 at December 31, 2003. Based upon the 1998 and 1994 decommissioning cost studies, the annual level funding into the trust of $15,900 for 2004 was expensed by CPS.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts and debt issuance costs are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures of the funds in which proceeds of debt issuances are recorded.

Q. Elimination of Internal Activity

Eliminations of internal activity, particularly those related to internal service fund transactions, are needed to make the transition from governmental funds to government-wide activities. The overriding objective in "eliminating the effects of internal service fund activity" is to adjust the internal charges to cause a break-even result. Eliminating the "effect" of internal service fund activity requires the City to "look back" and adjust the internal service funds' internal charges. Net income derived from internal service fund activity would cause a pro rata reduction in the charges made to the participating funds/functions. Conversely, an internal service fund net loss would require a pro rata increase in the amounts charged to the participating funds/functions. Therefore, eliminations made to the statement of activities remove the "doubling up" effect of internal service fund activity. The residual internal balances between the governmental and business-type activities are reported in the statement of net assets and the internal balance amounts that exist within the governmental funds or within business-type funds are eliminated. The City reports internal service fund balances in both governmental and business-type activities based on the pro rata share of the amounts charged to the participating funds/functions.

The City has three internal service funds: Other Internal Services, Information Technology Services, and Self-Insurance Funds. Other Internal Services and Information Technology Services charges users fees for requested goods or services. Building maintenance charges, a component of the Other Internal Services Fund, are based on the space occupied by departments. Through the tracking of these charges to the applicable departments, the net income or loss will be allocated back to the user department based on actual charges incurred.

The Self-Insurance Funds generate their revenues through fixed assessments charged to the various funds each year. The net income or loss generated by the Self-Insurance Funds is allocated back based on the same allocation by which the revenues are received.

R. Application of Restricted and Unrestricted Net Assets

The City may receive funding from an organization whose expenditure is restricted to certain allowable costs. In situations where both restricted and unrestricted net assets are expended to cover allowable expenses, the City will first expend the restricted net assets and cover additional costs with unrestricted net assets. The City reserves the right to selectively defer the use of restricted assets.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

S. Other Budget Disclosures

Excess of expenditures, transfers, and encumbrances over appropriations occurred as follows:

Excess of Expenditures, Transfers, and Encumbrances Over Appropriations			
Fund/Expenditures	Appropriations	Expenditures, Transfers, and Encumbrances	Excess of Expenditures, Transfers, and Encumbrances over Appropriations
General Fund:			
Public Works	$ 10,638	$ 10,657	$ 19
Health Services	12,911	13,410	499
Transfers	76,111	76,441	330
Debt Service Fund:	$ 127,012	$ 127,579	$ 567
Special Revenue Funds:			
Hotel/Motel 2%	$ 10,614	$ 13,627	$ 3,013
Project Management Office	4	263	259
Public Health Support	3,466	3,532	66
Brooks City Base	0	163	163

The excess expenditures over appropriations were fully offset by excess actual revenues or fund balances.

T. Prior Period Adjustments

SAWS' prior year net assets have been restated due to a change in the estimate of future claims to be paid with regards to the self-insured health plan in the amount of $3,236, change in the capitalization policy in the amount of ($1,528), recalculation of bond issuance costs in the amount of ($273), and the reclassification of a liability in the amount of ($14).

San Antonio Development Agency's (SADA) prior year net assets have been restated by $790 due to two errors in prior years. An increase of $685 was due to an error of property developed in fiscal year 1995 but accounted for as agency expenditures at that time. The remaining $105 increase to governmental fund equity was for a parcel of land acquired in fiscal 2002, where the offset was originally made to investment in general fixed assets rather than governmental fund equity. The corrections had no effect on SADA fiscal year 2004 activity.

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(amounts are expressed in thousands)

2. PROPERTY TAXES

Property taxes are levied and due upon receipt on October 1, attached as an enforceable lien on property as of January 1, and becomes delinquent the following February 1. In fiscal year 1999, the City executed an inter-local agreement with the Bexar County Tax Assessor/Collector's Office to provide property tax billing and collection services at the same level of service to its citizens as previously provided by the City.

Property tax revenues are recognized when they become available which means when due, or past due and receivable within the current period or expected to be collected soon enough thereafter (within 60 days) to be used to pay liabilities of the current period. Property tax receivables, including related interest and penalty receivable, net of allowances for uncollectible amounts, represent amounts the City believes will ultimately be collected. Property tax receivable, net of allowances for uncollectible amounts, are offset by deferred revenues. The City is permitted by the Municipal Finance Law of the State of Texas to levy taxes up to $2.50 per $100 of taxable valuation. The tax rate approved by City ordinance for the year ended September 30, 2004, was $0.57854 per $100 taxable valuation, which means that the City has a tax margin of $1.92146 per $100 taxable valuation and could raise an additional $856,647 per year based on the net taxable valuation of $44,583,139 before the limit is reached.

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3. CASH AND CASH EQUIVALENTS AND INVESTMENTS

City monies are deposited in demand accounts at the City's approved depository. The City utilizes a pooled cash and investment strategy with each fund's cash balance and pro rata share of highly liquid investments, including U.S. Treasury securities, U.S. Government Agency securities, and repurchase agreements with original maturities of ninety days or less, summarized by fund type and included in the combined statement of net assets as Cash and Cash Equivalents. Overdrafts that result from a fund overdrawing its share of pooled cash are reported as interfund payables by the overdrawn fund and as interfund receivables of the contributing funds.

Collateral is required for demand deposits and certificates of deposit at 100% of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities, school districts, and district corporations. Collateral pledged for demand deposits and certificates of deposit is required to be held in the City's name by the trust or safekeeping department of a bank other than the pledging bank.

Written custodial agreements are required which provide, among other things, that the collateral securities are held separate from the assets of the custodial banks. The City periodically determines that the collateral has a fair value adequate to cover the deposits and that the collateral has been segregated either physically or by book entry. At fiscal year-end, cash deposits for the City were entirely collateralized by the City's depository or federal depository insurance.

The City entered into repurchase agreements in connection with the investment of certain bond proceeds. Although these repurchase agreements are considered securities for purposes of credit risk classification, due to their 100% overnight liquidity, they are included with Cash and Cash Equivalents in the combined statement of net assets.

The investment policy of the City is governed by state statute and by its own written investment policy. Authorized investments include: demand accounts, certificates of deposit, obligations of the U.S. Treasury and U.S. Government Agencies, commercial paper, and repurchase agreements. The City maintains in its investment portfolio U.S. Treasury securities and U.S. Government Agency securities with original maturities of more than ninety days. Each funds' pro rata share of these longer-term investments are combined with similar non-pooled securities (i.e., securities purchased and held for specific funds), including U.S. Treasury securities, and U.S. Government Agency securities, and are reported as investments in the combined statement of net assets, as of September 30, 2004.

The City accounts for and reports investments in accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools". The City's policy with respect to money market investments that have a remaining maturity of one year or less at the time of purchase is to report these investments at amortized cost. Amortized cost approximates fair value for these investments. There was not a decrease in fair value for investments of the City with a remaining maturity of greater than one year for the year ended September 30, 2004. The City does not participate in external investment pools.

Investments of the Fire and Police Pension Fund (Pension Fund), a blended component unit, are administered by the Fire and Police Pension Fund Board of Trustees. Investments of the Pension Fund are reported at fair value and include: corporate bonds; common stock; preferred stock; U.S. Treasury securities; U.S. Government Agency securities; notes, mortgages and contracts; and real estate. Equity and fixed income securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Notes, mortgages, and contracts are valued on the basis of future principal and interest payments discounted at prevailing interest rates. The fair value of real estate investments are based on independent appraisals and on the equity position of real estate partnerships in which the Pension Fund has invested. Gains and losses on sales and exchange of securities are recognized on the trade date. Investments that do not have an established fair value are reported at estimated fair value. No investments in any one organization (other than those issued by the U.S. Government) represent 5% or more in plan net assets.

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

The Pension Fund has entered into an agreement with its custodial bank to lend the Pension Fund's securities to one or more borrowers for a fee. It is the policy of the Pension Fund and the custodial bank to require that collateral equal to 102% and 105% for domestic and international securities, respectively, of the loaned securities are maintained by the custodial bank.. Collateral may be in the form of cash, U.S. government securities and irrevocable letters of credit. Until the loan is terminated, the borrower retains all incidents of ownership with respect to the collateral. In the event that the borrower fails to repay the borrowed securities when due and the value of the collateral is insufficient to replace the borrowed securities, the Pension Fund may suffer a loss. Management of the Pension Fund considers the possibility of such a loss to be remote.

As of September 30, 2004, the Pension Fund had lending arrangements outstanding with a total fair value of $135,425, which were fully collateralized with cash and securities. Related to these loaned securities, cash collateral of $138,722 is recorded in the Pension Fund's statements of plan net assets. Net income for the year ended September 30, 2004, under the securities lending arrangement was $255.

The Pension Fund has only limited involvement with derivative and other structured financial instruments (as defined in GASB Technical Bulletin No. 94-1) and does not use them for trading purposes. The Pension Fund's investment philosophy in bond portfolios has centered on using derivatives and other structured financial instruments only when comparable cash alternatives are not available. Specifically, the Pension Fund has used the following basic guidelines when entering into such transactions: (1) small allocations, (2) no use of leverage, (3) price floors, (4) short maturities to mitigate potential problems with liquidity, and (5) attention to credit risk of the issuer. The fair value of structured financial instruments held for the Pension Fund at September 30, 2004, was approximately $35,846.

The Pension Fund periodically participates in options and futures to hedge the value of a portion of its investments. Financial options and futures are agreements that give one party the right, but not the obligation, to buy or sell a specific amount of an asset for a specified price on or before a specified expiration date. Total exposure on these options and futures of approximately $5,460 is included in the fair value of investments at September 30, 2004.

The Fire and Police Retiree Health Care Fund Board of Trustees administers investments of the Fire and Police Retiree Health Care Fund (Health Care Fund), a blended component unit. Investments are reported at fair value and short-term investments are reported at amortized cost, which approximates fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Investments that do not have an established fair value are reported at estimated fair value. All investment income, including changes in fair value of investments, is reported as additions in the statement of changes in postemployment healthcare plan net assets. No investments in any one organization (other than those issued by the U.S. Government) represent 5% or more in plan net assets.

The Health Care Fund entered into an agreement with its custodian bank in June 2003 to lend the Health Care Fund's securities to one or more borrowers for a fee. It is the policy of the Fund and the custodian bank to require that collateral equal 100% of the loaned security's market value plus accrued interest for domestic government or agency securities loaned and 102% of the loaned security's market value plus accrued interest for approved, domestic non-government or agency securities loaned be maintained by the custodian bank. Collateral may be in the form of cash, U.S. government securities, or irrevocable letters of credit. Until the loan is terminated, the borrower retains all incidents of ownership with respect to the collateral. If the borrower fails to repay the borrowed securities when due and the value of the collateral is insufficient to replace the borrowed securities, the Fund may suffer a loss. Management of the Fund considers the possibility of such a loss to be remote. Cash collateral is invested in money market funds at September 30, 2004.

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3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

The Health Care Fund's investment policy limits investment in derivative instruments to securities meeting the standards dictated by the Federal Financial Institutions Examinations Council.

As of September 30, 2004, the Health Care Fund held a CMO position and mortgage-backed securities in the form of GNMA, FNMA, FHLMC, and similar pass through obligations. The fair value of the CMO and mortgage-backed securities held by the Fund was approximately $5,279, as of September 30, 2004. The overall return or yield on CMO's and asset-backed securities depends on the amount of interest collected over the life of the security and the change in the market value. Although the Fund will receive the full amount of principal, if prepaid, the interest income that would have been collected during the remaining period to maturity, net of any market adjustment, is lost.

The Health Care Fund's Hedge Funds are held through investments in unregulated limited partnerships that invest in other hedge funds.

The investment policies of SAWS and CPS, the City's major discretely presented component units, are governed by state statute, local ordinance, and their own respective written investment policies. Authorized investments include: demand accounts, certificates of deposit, obligations of the U.S. Treasury and U.S. Government Agencies, commercial paper, and repurchase agreements.

SAWS is permitted by City Ordinance No. 75686 to invest in time deposits or certificates of deposit secured in the manner required by law for public funds, or to invest in direct obligations of, including obligations for which the principal and interest are unconditionally guaranteed by, the United States of America, in obligations of any agencies or instrumentalities of the United States of America or as otherwise permitted by SAWS' investment policy, which is governed by state statutes. SAWS' general depository agreement does not require SAWS to maintain an average monthly balance.

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3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Under the provisions of GASB Statement No. 31, SAWS reports money market investments with a remaining maturity at time of purchase of one year or less at amortized cost, which approximates fair values. The net decrease during fiscal year 2003 in the fair value of the money market investments with an original maturity of greater than one year was $1,300. The unrealized gain on investments held at year-end was $598.

CPS cash deposits at January 31, 2004, were entirely insured by federal depository insurance or collateralized by banks for the account of CPS. For deposits that were collateralized, the securities were U.S. Government or Government Agency or U.S. Government guaranteed obligations held in book entry form by the Federal Reserve Bank in CPS' name.

CPS' allowable investments as defined by CPS Board Resolution and Policy, Bond Ordinances, Tax-Exempt Commercial Paper Ordinance, and State law include U.S. Government or Government Agency or U.S. Government guaranteed obligations, collateralized mortgage obligations issued by the U.S., fully secured certificates of deposit issued by a state, national bank, or savings bank domiciled in the State of Texas, direct repurchase agreements, reverse repurchase agreements, defined bankers acceptances and commercial paper, no-load money market mutual funds, and other types of specific secured or guaranteed investments.

CPS' investments in the STP Decommissioning Master Trust are held by an independent trustee. Trust investments are limited to U.S. Government or Government Agency or U.S. Government guaranteed obligations by CPS Board Resolution and Policy, Trust Agreement, and State law. These investments are subject to market risk, and their fair value will vary as interest rates fluctuate. This could affect the value at which these securities are recorded.

CPS' investments with a maturity date within one year of the purchase date are reported at amortized cost, which approximates fair value. Amortization of premium and accretion of discount are recorded over the terms of the investments that mature within one year. CPS investments with a maturity date of one year or longer from the purchase date are accounted for using fair value. Fair value is determined by using generally accepted financial reporting services and publications and approved dealers and brokers as necessary. The specific identification method is used to determine costs in computing gain or loss on sales of securities.

CPS reports all STP Decommissioning Master Trust investments and employee health and welfare investments at fair value.

Investments in the employee health and welfare plans are held by an independent trustee. These investments are limited to those authorized by the plans' Administrative Committees, the Trust Agreements, and State law. These investments are subject to market risk and their fair value will vary as interest rates fluctuate. This could affect the value at which these securities are recorded. These investment policies follow the "prudent man" concept.

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(amounts are expressed in thousands)

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Combined cash and cash equivalents and investments are presented below as of year-end for the City, and its significant discretely presented Component Units, SAWS and CPS. The information is provided to give an indication of the proportionate amount of cash and investments held by each respective entity.

Combined Cash, Cash Equivalents, and Investments

	City[1]	SAWS[2]	CPS[3]
Cash and Cash Equivalents	$ 272,697	$ 38,397	$ 68,476
Security Lending Collateral Cash and Cash Equivalents	159,835		
Investments	2,216,564	320,401	1,290,513
Less: Investments with original maturities of less than ninety days included in cash equivalents	(94,217)	(31,849)	(65,016)
Total	$ 2,554,879	$ 326,949	$ 1,293,973

[1] The following amounts were held by the City in a fiduciary capacity and are excluded from the primary government statement of net assets: Cash and Cash Equivalents of $150,666; Security Lending Collateral-Cash and Cash Equivalents of $159,835; Investments of $1,513,285.
[2] For the fiscal year ended December 31, 2003
[3] For the fiscal year ended January 31, 2004

	City[1]	SAWS[2]	CPS[3]
Totals from Statement of Net Assets and Fiduciary Fund Statements			
Cash and Cash Equivalents	$ 262,149	$ 0	$ 51,532
Security Lending Collateral Cash and Cash Equivalents	159,835		
Investments	1,951,944	24,136	238,813
Restricted Cash and Cash Equivalents	10,548	38,397	16,944
Restricted Investments	170,403	264,416	986,684
Total Cash, Cash Equivalents and Investments	$ 2,554,879	$ 326,949	$ 1,293,973

[1] The following amounts were held by the City in a fiduciary capacity and are excluded from the primary government statement of net assets: Cash and Cash Equivalents of $150,666; Security Lending Collateral-Cash and Cash Equivalents of $159,835; Investments of $1,513,285.
[2] For the fiscal year ended December 31, 2003
[3] For the fiscal year ended January 31, 2004

(amounts are expressed in thousands)

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

The composition of Cash and Cash Equivalents included in the financial statements for the City and its major discretely presented Component Units as of the respective year-ends is presented below.

	City	SAWS[1]	CPS[2]
Deposits with Financial Institutions	$35,762	$10,939	$3,312
Less: Deposits with Original Maturities of Greater than Ninety Days		(4,500)	
Investments with Original Maturities of Less than Ninety Days	94,217	31,849	65,016
Cash with Pension/Retiree Healthcare Fiscal Agents	142,492		
Cash with Other Financial Agents	27		13
Petty Cash Funds	198	109	135
Cash Over and Short	1		
Total Cash and Cash Equivalents	$272,697	$38,397	$68,476

[1] For the fiscal year ended December 31, 2003
[2] For the fiscal year ended January 31, 2004

Cash with fiscal agents of the Fire and Police Pension Fund of the City of San Antonio have been approved by the Funds' Board of Directors and are invested as authorized by Texas State Statutes. Cash with fiscal agents of the Fire and Police Retiree Healthcare Fund of San Antonio have been approved by the Funds' Board of Directors and are invested as authorized by the Investment Policy Statement and Guidelines of the San Antonio Fire and Police Retiree Health Care Fund, San Antonio.

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(amounts are expressed in thousands)

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Deposits with financial institutions are classified into three categories of custodial credit risk based upon the following:

Category	Description
1	Deposits insured by the FDIC or collateralized with securities held by the City or the City's agent in the City's name.
2	Deposits collateralized by securities held by the pledging bank's agent in the City's name.
3	Deposits uncollateralized which include deposits collateralized by securities held by the pledging financial institution or by its trust department or agent but not in the City's name.

Accordingly, deposits of the City, SAWS, and CPS are categorized by custodial credit risk:

Units	Carrying Amount	Bank Balance	Category 1	Category 2	Category 3
City Deposits:					
With Financial Institutions	$ 35,762	$ 46,395	$ 46,395	$ 0	$ 0
Deposits with Agents	142,519	142,519	142,519		
SAWS Deposits:					
Demand and Savings Accounts	6,439	11,285	11,285		
Certificates of Deposits	4,500	4,500	4,500		
CPS Deposits:					
With Financial Institutions	3,312	11,720	11,720		

Cash with fiscal agents of the Fire and Police Pension Fund and the Fire and Police Retiree Health Care Fund of the City of San Antonio is classified as Category 1. The Fire and Police Pension Fund also had securities lending collateral - cash and cash equivalents in the amount of $138,722, which is not categorized for credit risk as it had been invested in a securities lending collateral investment pool. The Fire and Police Retiree Health Care Fund had securities lending collateral cash and cash equivalents in the amount of $21,113, which is not categorized for credit risk as it had not been invested in money market funds at September 30, 2004.

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(amounts are expressed in thousands)

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Investments are classified into three categories of custodial credit risk based upon the following:

Category	Description
1	Includes investments that are insured or registered, or for which the securities are held by the City or its agent in the City's name.
2	Includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name.
3	Includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the City's name.

Accordingly, the investments of the City, SAWS, and CPS are categorized below to give an indication of the level of custodial credit risk assumed:

Total Investments By Category

	Category 1	Category 2	Category 3	Carrying Amount	Fair Value
City:					
Corporate Bonds	$ 187,848	$ 0	$ 0	$ 187,848	$ 33,374
Preferred Stock	1,659			1,659	1,659
Common Stock	845,234			845,234	845,234
U.S. Treasury & Government Agency Securities	750,475			750,475	751,984
Repurchase Agreements		8,500		8,500	8,500
Total Categorized Investments	1,785,216	8,500	0	1,793,716	1,640,751
Investments not Categorized:					
Money Market Mutual Fund				116,594	116,594
Notes, Mortgages, Contracts				129,377	129,377
Real Estate Investments				55,200	55,200
Hedge Fund				11,700	11,700
Venture Capital Partnerships and Other Alternative Investments				109,977	109,977
Total City	$ 1,785,216	$ 8,500	$ 0	$ 2,216,564	$ 2,063,599
SAWS:					
Wachovia Held in Escrow	$ 0	$ 5,095	$ 0	$ 5,095	$ 5,095
Bank One Held in Escrow		9,138		9,138	9,138
U.S. Treasury & Government Agency Securities	301,668			301,668	301,700
Total SAWS	$ 301,668	$ 14,233	$ 0	$ 315,901	$ 315,933
CPS:					
U.S. Treasury & Government Agency Securities	$ 924,789	$ 0	$ 0	$ 924,789	$ 925,228
South Texas Nuclear Project Decommissioning Master Trust:					
U.S. Treasury & Government Agency Securities	$ 208,848			$ 208,848	$ 208,848
Employee Health and Welfare:					
Corporate bonds	$ 19,817			$ 19,817	$ 19,817
Common stock	88,841			88,841	88,841
U.S. Treasury & Government Agency Securities	22,729			22,729	22,729
Global Bonds	8,961			8,961	8,961
Foreign equities					
Total Health and Welfare Investments Categorized	140,348			140,348	140,348
Investments not Categorized:					
Money Market Mutual Fund				16,528	16,528
Total Employee Health and Welfare Funds	$ 140,348			$ 156,876	$ 156,876
Total CPS	$ 1,273,985	$ 0	$ 0	$ 1,290,513	$ 1,290,952

(amounts are expressed in thousands)

4. CAPITAL ASSETS

Capital asset activity for governmental activities, to include Internal Service Funds, for the year ended September 30, 2004, was as follows:

Capital Assets - Governmental Activities

Governmental Activities:	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Non-Depreciable Assets					
Land	$ 1,238,908	$ 20,454	$ 0	$ 0	$ 1,259,362
Construction in Progress	585,958	99,901		(40,338)	645,521
Total Non-Depreciable Assets	1,824,866	120,355	0	(40,338)	1,904,883
Depreciable Assets					
Buildings	385,133			2,693	387,826
Improvements	69,914			7,818	77,732
Infrastructure	1,949,975			29,143	1,979,118
Machinery and Equipment	176,961	33,916	(13,460)	684	198,101
Total Depreciable Assets	2,581,983	33,916	(13,460)	40,338	2,642,777
Accumulated Depreciation					
Buildings	(146,114)	(21,062)			(167,176)
Improvements	(34,940)	(2,413)			(37,353)
Infrastructure	(1,144,648)	(45,576)			(1,190,224)
Machinery and Equipment	(80,105)	(34,178)	9,005		(105,278)
Total Accumulated Depreciation	(1,405,807)	(103,229) [1]	9,005 [1]	0	(1,500,031)
Total Depreciable Assets, net	1,176,176	(69,313)	(4,455)	40,338	1,142,746
Total Capital Assets, net [1]	$ 3,001,042	$ 51,042	$ (4,455)	$ 0	$ 3,047,629

[1] **Depreciation expense was charged to governmental functions as follows:**

General Government	$ 434
Public Safety	20,633
Public Works	57,788
Health Services	325
Welfare	451
Culture and Recreation	4,359
Convention and Tourism	4,704
Urban Redevelopment and Housing	44
Depreciation on capital assets held by the City's internal service funds are charged to various functions based on asset usage	14,491
Total Depreciation Expense for Governmental Activities	$ 103,229

[1] The capital assets of internal service funds are included in governmental activities. In fiscal year 2004, internal service funds capital assets increased by $14,405, decreased by $11,496, resulting in an ending balance of $109,759. Depreciation expense of $14,491 resulted in an ending accumulated depreciation balance of $69,506, to arrive at a net book value of $40,253.

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(amounts are expressed in thousands)

4. CAPITAL ASSETS (Continued)

Capital asset activity for business-type activities for the year ended September 30, 2004, was as follows:

Capital Assets - Business-type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Non-Depreciable Assets				
Land				
Aviation Fund	$ 2,970	$ 0	$ 0	$ 2,970
Parking Fund	8,125			8,125
Non-Major Funds	893			893
Total	11,988			11,988
Construction in Progress				
Aviation Fund	97,477	10,273		107,750
Parking Fund	11,591	843		12,434
Non-Major Funds	500		(64)	436
Total	109,568	11,116	(64)	120,620
Total Non-Depreciable Assets	121,556	11,116	(64)	132,608
Depreciable Assets				
Buildings				
Aviation Fund	115,657		(1)	115,656
Parking Fund	18,985			18,985
Non-Major Funds	46			46
Total	134,688		(1)	134,687
Improvements				
Aviation Fund	156,110			156,110
Parking Fund	1,639		(356)	1,283
Non-Major Funds	3,025			3,025
Total	160,774		(356)	160,418
Machinery and Equipment				
Aviation Fund	10,232	294	(227)	10,299
Parking Fund	759		(188)	571
Non-Major Funds	3,774	66	(97)	3,743
Total	14,765	360	(512)	14,613
Total Depreciable Assets	310,227	360	(869)	309,718
Accumulated Depreciation				
Buildings				
Aviation Fund	(51,147)	(2,760)		(53,907)
Parking Fund	(7,933)	(479)		(8,412)
Non-Major Funds	(228)			(228)
Total	(59,308)	(3,239)		(62,547)
Improvements				
Aviation Fund	(67,283)	(4,286)		(71,569)
Parking Fund	(576)	(59)	157	(478)
Non-Major Funds	(233)	(86)		(319)
Total	(68,092)	(4,431)	157	(72,366)
Machinery and Equipment				
Aviation Fund	(6,908)	(950)	140	(7,718)
Parking Fund	(734)	(18)	187	(565)
Non-Major Funds	(2,433)	(333)	30	(2,736)
Total	(10,075)	(1,301)	357	(11,019)
Total Accumulated Depreciation	(137,475)	(8,971)	514	(145,932)
Total Depreciable Assets, net	172,752	(8,611)	(355)	163,786
Total Capital Assets, net	$ 294,308	$ 2,505	$ (419)	$ 296,394

(amounts are expressed in thousands)

4. CAPITAL ASSETS (Continued)

CPS and SAWS capitalize interest incurred on construction projects, in accordance with Statement of Accounting Standard No. 62 issued by the Financial Accounting Standards Board. CPS and SAWS capitalized construction period interest in the amount of $3,073 and $13,714, respectively. Capital asset activity for CPS and SAWS was as follows:

Capital Assets - City Public Service[1]	Beginning Balance	Increases	Decreases	Ending Balance
City Public Service				
Non-Depreciable Assets				
Land	$ 54,928	$ 268	$ 0	$ 55,196
Land held for future use	12,599		(12,599)	
Nonutility property - land		12,599		12,599
Construction in Progress	330,672	230,420	(312,507)	248,585
Total Non-Depreciable Assets	398,199	243,287	(325,106)	316,380
Depreciable Capital Assets				
Utility Plant in Service	6,432,122	347,340	(69,959)	6,709,503
Utility Property Leased	18,785			18,785
Nuclear Fuel	291,439	10,940		302,379
Total Depreciable Assets	6,742,346	358,280	(69,959)	7,030,667
Accumulated Depreciation				
Utility Plant in Service	(2,302,023)	(228,875)	72,644	(2,458,254)
Utility Property Leased	(270)	(66)		(336)
Nuclear Fuel	(252,943)	(13,950)		(266,893)
Total Accumulated Depreciation	(2,555,236)	(242,891)	72,644	(2,725,483)
Total Depreciable Assets, net	4,187,110	115,389	2,685	4,305,184
Total Capital Assets, net	$ 4,585,309	$ 358,676	$ (322,421)	$ 4,621,564

Capital Assets - San Antonio Water System[2]	(Restated) Beginning Balance	Increases	Decreases	Ending Balance
San Antonio Water System				
Non-Depreciable Assets				
Land	$ 73,623	$ 13,430	$ (295)	$ 86,758
Construction in Progress	305,235	299,341	(176,350)	428,226
Total Non-Depreciable Assets	378,858	312,771	(176,645)	514,984
Depreciable Assets				
Utility Plant in Service	1,989,056	157,288	(1,029)	2,145,315
Machinery and Equipment	91,724	8,310	(798)	99,236
Total Depreciable Assets	2,080,780	165,598	(1,827)	2,244,551
Accumulated Depreciation				
Utility Plant in Service	(635,025)	(49,528)	959	(683,594)
Machinery and Equipment	(53,057)	(7,477)	436	(60,098)
Total Accumulated Depreciation	(688,082)	(57,005)	1,395	(743,692)
Total Depreciable Assets, net	1,392,698	108,593	(432)	1,500,859
Total Capital Assets, net	$ 1,771,556	$ 421,364	$ (177,077)	$ 2,015,843

Beginning balances have been restated per SAWS December 31, 2003, CAFR

[1] For the fiscal year ended January 31, 2004
[2] For the fiscal year ended December 31, 2003

(amounts are expressed in thousands)

4. CAPITAL ASSETS (Continued)

Construction-in-progress relating to the Capital Assets is comprised of the following:

Construction-In-Progress: Assets-Governmental Activities

	Project Authorization	Expended to Sept. 30, 2004	Committed	Required Future Financing
Buildings	$ 219,737	$ 172,070	$ 47,667	None
Streets and Bridges	339,646	145,500	194,146	None
Storm Drainage and Flood Prevention	235,960	118,552	117,408	None
Improvements Other Than Buildings	434,658	209,399	225,259	None
Total	$ 1,230,001	$ 645,521	$ 584,480	

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5. RECEIVABLES AND PAYABLES

A. Disaggregation of Receivables and Payables

Receivables

Net receivables at September 30, 2004, were as follows:

	Accounts	Taxes	Notes and Loans	Accrued Interest	Other	Total Net Receivables
Governmental Activities:						
General Government	$ 26,572	$ 55,396	$ 0	$ 557	$ 799	$ 83,324
Public Safety	7			6		13
Public Works	8,129			571		8,700
Health Services	16,561			2		16,563
Environmental Protection and Control	220					220
Culture and Recreation	874			42		916
Convention and Tourism	5,561			33		5,594
Urban Redevelopment and Housing	5		5,952	157		6,114
Economic Development Opportunity				8		8
Total - Governmental Activities	$ 57,929	$ 55,396	$ 5,952	$ 1,376	$ 799	$ 121,452
Business-type Activities:						
Airport System	$ 1,961	$ 0	$ 0	$ 27	$ 0	$ 1,988
Parking Facilities	2			7		9
Environmental Services	4,096			9		4,105
Total - Business-type Activities	$ 6,059	$ 0	$ 0	$ 43	$ 0	$ 6,102

The receivable balances for General Government, Health Services, Environmental Protection and Control, Convention and Tourism, and Public Works Accounts have been reduced by the estimated allowance for doubtful accounts of $3,126, $50,456, $30, $76, and $20, respectively, and General Government Taxes of $15,054. The receivable balance for Business-type Activities has been reduced by the estimated allowance for doubtful accounts of $494.

The only receivables not expected to be collected within one year are $5,773 of notes and loans receivable in Urban Redevelopment and Housing.

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(amounts are expressed in thousands)

5. RECEIVABLES AND PAYABLES (Continued)

A. Disaggregation of Receivables and Payables (Continued)

Payables

Payables at September 30, 2004, were as follows:

	Accounts	Accrued Payroll	Total Payables
Governmental Activities:			
General Government	$ 69,563	$ 1,517	$ 71,080
Public Safety	6,548	5,670	12,218
Public Works	3,542	571	4,113
Health Services	321	879	1,200
Environmental Protection and Control		36	36
Culture and Recreation	1,355	723	2,078
Convention and Tourism	6,914	491	7,405
Urban Redevelopment and Housing	1,603	57	1,660
Welfare	1,218	354	1,572
Economic Development Opportunity	335	171	506
Total - Governmental Activities	$ 91,399	$ 10,469	$ 101,868
Business-type Activities:			
Airport System	$ 4,213	$ 421	$ 4,634
Parking Facilities	75	80	155
Environmental Services	2,749	543	3,292
Total - Business-type Activities	$ 7,037	$ 1,044	$ 8,081

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(amounts are expressed in thousands)

5. RECEIVABLES AND PAYABLES (Continued)

B. Interfund Receivable and Payable Balances

The following is a summary of interfund receivables and payables for the City as of September 30, 2004:

Summary Table of Interfund Receivables and Payables
As of September 30, 2004

	Due From Other Funds	Due To Other Funds
General Fund:		
Airport System Fund	$ 192	$ 26
Fiduciary Funds	52	
Internal Service Funds	1,457	2,924
Nonmajor Governmental Funds	38,119	637
Parking Fund	68	
Total General Fund	39,888	3,587
Debt Service Funds:		
Nonmajor Governmental Funds	339	
Parking Fund	715	
Total Debt Service Funds	1,054	
Airport System Fund:		
General Fund	26	
Airport Operating Fund from the Airport I&C Fund	255	
Airport Debt Service Fund from the Airport Operating Fund	66	
Airport Debt Service Fund from the Airport I&C Fund	1	
Airport Operating Fund to the Airport Debt Service Fund		66
Airport I&C Fund to the Airport Debt Service Fund		1
Airport Construction Fund to the General Fund		191
Airport I&C Fund to the Airport Operating Fund		255
Airport I&C Fund to the General Fund		1
Nonmajor Governmental Funds	1,150	
Internal Service Funds		7
Total Airport System Fund	1,498	521
Parking Fund:		
General Fund		68
Debt Service Fund		715
Internal Service Funds		2
Total Parking Fund		785
Fiduciary Agency Funds:		
General Fund		52
Total Fiduciary Agency Funds		52
Internal Service Funds:		
General Fund	2,924	1,457
Airport Fund	7	
Internal Service Funds	20,878	20,878
Nonmajor Governmental Funds	37	
Parking Fund	2	
Total Internal Service Funds	23,848	22,335
Nonmajor Governmental Funds:		
General Fund	637	38,119
Airport Fund		1,150
Debt Service Fund		339
Internal Service Funds		37
Nonmajor Governmental Funds	3,354	3,354
Total Nonmajor Governmental Funds	3,991	42,999
Total	$ 70,279	$ 70,279

(amounts are expressed in thousands)

5. RECEIVABLES AND PAYABLES (Continued)

B. Interfund Receivable and Payable Balances (Continued)

As of September 30, 2004, the balances represent short-term loans resulting from (1) timing differences between the dates that transactions are recorded in the accounting system and (2) short-term borrowings at year end. Of the $39,888 due from other funds in the General Fund, $33,424 is a result of overdraws of pooled cash.

6. LONG-TERM DEBT

A. Primary Government (City)

1. Governmental Activity Long-Term Debt

The City's on-going capital improvement financing for infrastructure and "quality of life" purposes resulted in the issuance of additional indebtedness during fiscal year 2004. In April 2004, the City issued the following: $33,570 in General Improvement Bonds, Series 2004 and $29,525 Combination Tax and Revenue Certificates of Obligation, Series 2004. The 2004 Obligations are payable from ad valorem taxes. The 2004 Certificates are additionally secured by a lien on and pledge of certain Pledged Revenues (defined below) of the City's municipal parks system, not to exceed $1 during the entire period the 2004 Certificates or interest thereon remain outstanding.

In June 2004, the City issued $10,390 of Hotel Occupancy Tax Subordinate Lien Revenue Refunding Bonds, Series 2004A. Delivery of the bonds occurred on June 29, 2004, and, along with the 2004B Bonds, they are payable from and are equally and ratably secured by a lien on the Pledged Revenues. "Pledged Revenues" consist of (i) a subordinate lien on the revenues from the 1.75% HOT (described below), plus, (ii) a subordinate lien on the revenues from the 5.25% HOT (described below), plus (iii) a subordinate lien on the earnings of the investment of the 1.75% HOT Fund and the 5.25% HOT Fund, and earnings on the Debt Service Fund, and the Debt Service Reserve Fund. The above liens are subordinate and inferior to the liens in favor of the Prior Lien Bonds (described below) and on a parity with the 2004B Bonds.

The net proceeds from the sale of the 2004A Hotel Occupancy Tax Subordinate Lien Revenue and Refunding Bonds, less $346 of the original issue discount, were applied to fund an escrow fund for the redemption, discharge, and defeasance of the refunded obligations. As a result of the 2004 refunding, the City will realize a total increase of $6,865 in debt service payments. Through the transaction, the City obtained a total economic loss (difference between the present values of the debt service payments on the old and new debt) of $280.

Concurrently, in June 2004, the City issued $111,425 of Hotel Occupancy Tax Subordinate Lien Revenue and Refunding Bonds, Series 2004B. Delivery of the bonds occurred on June 29, 2004, and, together with the 2004A Bonds, are payable from and are equally and ratably secured by a lien on the Pledged Revenues, as defined above.

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6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

1. Governmental Activity Long-Term Debt (Continued)

The net proceeds from the sale of the 2004B Hotel Occupancy Tax Subordinate Lien Revenue and Refunding Bonds, less $346 of the original issue discount, together with a cash contribution from the City, was applied to fund an escrow fund for the redemption, discharge, and defeasance of the refunded obligations. As a result of the 2004B refunding, the City will realize a total decrease of $2,627 in debt service payments. Through the transaction, the City obtained a total economic gain (difference between the present values of the debt service payments on the old and new debt) of $12,281.

The hotel occupancy tax permitted to be imposed by the City pursuant to the HOT Act and Ordinance Number 78834 adopted by the City Council on September 30, 1993, is currently levied at 9%, effective January 1, 1994 (the "Hotel Occupancy Tax" or "HOT"). Of the Hotel Occupancy Tax, 2% is designated as the "Expansion Hotel Occupancy Tax" and can only be used for expansion of existing Convention Center facilities or the payment of obligations issued for such purpose pursuant to the Hotel Tax Act. The Expansion Hotel Occupancy Tax is currently pledged to the Prior Lien Bonds and is not part of the Pledged Revenues for the bonds similarly secured; however, the City may, in its discretion, and intends to, make certain debt service payments on the Bonds and the 2004B Bonds from the Expansion Hotel Occupancy Tax. The pledged 5.25% HOT is equal to three quarters of the remaining 7% Municipal Hotel Occupancy Tax which is 5.25%. The pledged 1.75% HOT is equal to the remaining one quarter of the remaining 7% Municipal Hotel Occupancy Tax which is 1.75%.

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6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

1. Governmental Activity Long-Term Debt (Continued)

The following table is a summary of changes for the year ended September 30, 2004, for Governmental Activity Debt:

Governmental Activity Long-Term Debt (Ad Valorem Tax Pledge)

Issue	Original Amount	Final Principal Payment[1]	Interest Rates (%)[1]	Balance Outstanding October 1, 2003	Additions During Year	Deletions During Year	Balance Outstanding September 30, 2004
General Obligation Bonds[1]							
1988 Refunding	$ 132,978	2006	7.250-7.400	$ 4,008	$	$ 327	$ 3,681
1994	30,450	2004	6.000	1,350		1,350	
1996	35,330	2004	5.100	3,175		1,590	1,585
1996A Refunding	82,235	2016	4.650-6.000	51,155		1,405	49,750
1996B Refunding	6,030	2008	6.700	3,370		580	2,790
1998 Refunding	30,855	2018	4.500-5.000	27,785		1,070	26,715
1998 Forward Refunding	53,950	2008	5.500-6.000	29,130		8,375	20,755
1998A Refunding	47,955	2019	4.000-5.250	43,110		2,485	40,625
1999	12,000	2020	5.500-6.000	11,260		400	10,860
2000	27,565	2020	4.500-5.000	25,705		990	24,715
2000A	15,615	2021	5.250-5.375	15,160		480	14,680
2001	84,945	2022	3.000-5.250	84,030		660	83,370
2002 Forward Refunding	239,910	2013	4.500-5.250	215,880		15,355	200,525
2002	55,850	2023	3.000-5.500	55,250		3,685	51,565
2003	40,905	2014	2.750-5.000	40,905		6,615	34,290
2003A	55,710	2016	2.000-5.000	55,710		45	55,665
2004	33,570	2024	2.375-4.750		33,570		33,570
Subtotal	$ 985,853			$ 666,983	$ 33,570	$ 45,412	$ 655,141
Tax –Exempt Commercial Paper							
Series 2001	$ 32,700	2004	0.750-3.500	$ 10,500	$	$ 10,500	$
Subtotal	$ 32,700			$ 10,500	$	$ 10,500	$
Tax –Exempt Certificates of Obligation							
Series 1994	$ 9,900	2004	6.000	$ 465	$	$ 465	$
Series 1996	8,415	2005	5.100-5.200	775		335	440
Series 1996A	12,515	2006	4.600-4.750	1,665		540	1,125
Series 1998	4,315	2018	4.700-5.000	3,085		370	2,715
Series 1998A	36,535	2019	4.000-5.250	30,405		1,850	28,555
Series 1999	4,230	2020	5.750-6.000	3,970		140	3,830
Series 2000	8,490	2020	4.500-5.000	7,915		305	7,610
Series 2000A	8,810	2021	5.250-5.375	8,555		270	8,285
Series 2000C	6,415	2020	5.000-5.500	6,415		105	6,310
Series 2001	65,195	2014	4.000-5.250	63,100		4,610	58,490
Series 2002	69,930	2023	3.000-5.500	69,930		2,345	67,585
Series 2004	29,525	2024	2.000-5.000		29,525		29,525
Subtotal	$ 264,275			$ 196,280	$ 29,525	$ 11,335	$ 214,470
Taxable Certificates of Obligation							
Series 1996	$ 6,160	2009	6.550-6.050	$ 1,825	$	$ 250	$ 1,575
Series 1996B	7,375	2008	6.550-6.800	1,630		285	1,345
Series 2000B	1,755	2021	7.450-7.550	1,710		50	1,660
Subtotal	$ 15,290			$ 5,165	$	$ 585	$ 4,580
Revenue Bonds[2]							
Series 1996 Occupancy Tax	$ 182,012	2026	4.900-6.000	$ 177,348	$	$ 90,451	$ 86,897
2003 Drainage	44,150	2028	2.000-5.000	44,150		1,035	43,115
Series 2001 Municipal Facility Corp.	14,465	2020	3.625-5.200	13,420		550	12,870
Series 2004A	10,390	2029	5.000		10,390		10,390
Series 2004B	111,425	2020	2.000-5.000		111,425		111,425
Subtotal	$ 362,442			$ 234,918	$ 121,815	$ 92,036	$ 264,697
Total	$ 1,660,560			$ 1,113,846	$ 184,910	$ 159,868	$ 1,138,888

[1] Accretion of interest on 1988 General Improvement Refunding Bonds for Fiscal Year 2004 has resulted in an increase of $7,837 in General Obligation Bonds Payable. This increase is reflected on the Combined Statement of Net Assets but is not shown on above table.

[2] A portion of the Hotel Occupancy Tax Revenue Bonds, Series 1996 was sold as Capital Appreciation Bonds (CABS). Interest on the CABS will accrete from date of delivery and will be payable only at maturity or redemption. Interest accreted through Fiscal Year 2004 has resulted in an increase of $11,796 in Revenue Bonds Payable. This increase is reflected on the Combined Statement of Net Assets but is not shown on above table.

(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

1. Governmental Activity Long-Term Debt (Continued)

Annual Requirements

The annual requirements to amortize all General Obligation Bonds, Tax Exempt Commercial Paper, Certificates of Obligation, and Hotel Occupancy Tax Revenue Bonds outstanding as of September 30, 2004, are as follows:

Principal and Interest Requirements

Year Ending September 30,	General Obligation Bonds Principal	General Obligation Bonds Interest	Certificates of Obligation Principal	Certificates of Obligation Interest	Revenue Bonds Hotel Occupancy Tax Principal	Revenue Bonds Hotel Occupancy Tax Interest	Total Annual Requirements
2005	$ 44,051	$ 36,951	$ 11,665	$ 10,457	$ 2,435	$ 12,446	$ 118,005
2006	44,850	34,692	11,900	9,942	3,075	12,371	116,830
2007	49,875	28,097	14,185	9,352	4,050	12,266	117,825
2008	53,370	25,584	16,370	8,645	4,725	12,123	120,817
2009	55,015	22,615	16,445	7,866	7,500	9,770	119,211
2010-2014	231,860	74,072	89,335	26,511	30,662	65,096	517,536
2015-2019	111,740	30,026	36,190	10,608	39,900	59,250	287,714
2020-2024	64,380	5,658	22,960	2,308	68,870	29,713	193,889
2025-2029					60,455	13,007	73,462
2030-2034					43,025	3,883	46,908
Total	$ 655,141	$ 257,695 [1]	$ 219,050	$ 85,689	$ 264,697 [2]	$ 229,925	$ 1,712,197

Total Principal & Interest Payable Within One Year

	General Obligation Bonds	Certificates of Obligation	Revenue Bonds Hotel Occupancy Tax	Total Annual Requirements
Principal	$ 44,051	$ 11,665	$ 2,435	$ 58,151
Interest	36,951	10,457	12,446	59,854
Total	$ 81,002	$ 22,122	$ 14,881	$ 118,005

[1] Accretion of interest on the 1998 General Improvement Bonds through the year ended September 30, 2004, has resulted in an increase of $7,837 in General Obligation Bonds Payable. Total interest to be accreted is reflected in the interest portion of the above table.

[2] A portion of the Hotel Motel Occupancy Tax Revenue Bonds (Series 1996) was sold as Capital Appreciation Bonds (CABS). Interest on the CABS accretes from the date of delivery and will be payable only at maturity or redemption. The interest accreted through September 30, 2004, has resulted in an increase of $11,796 in Revenue Bonds Payable. Total interest to be accreted is reflected in the interest portion of the above table.

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

1. Governmental Activity Long-Term Debt (Continued)

Authorized But Unissued General Obligation Debt

Authorization Date	Purpose	Amount Authorized	Bonds Previously Issued	Bonds Authorized But Unissued
1-26-80 [1]	Drainage and Flood Control	$ 21,637	$ 17,413	$ 4,224
1-26-80 [1]	Fire Protection	4,257	2,125	2,132
1-26-80 [1]	Libraries	4,978	3,926	1,052
1-26-80 [1]	Street, Bridge, and Related Improvements	43,287	34,035	9,252
5-07-94	Street Improvements	25,600	25,600	
5-07-94	Drainage Improvements	34,400	34,400	
5-07-94	Parks and Recreation	41,600	41,600	
5-01-99	Streets and Pedestrian Improvements	41,300	41,300	
5-01-99	Drainage	19,000	19,000	
5-01-99	Flood Control	12,200	12,200	
5-01-99	Parks and Recreation	24,200	24,200	
5-01-99	Library System	13,200	13,200	
5-01-99	Public Safety	30,300	30,300	
11-04-03	Street & Pedestrian	29,398	14,231	15,167
11-04-03	Drainage	18,913	6,728	12,185
11-04-03	Parks and Recreation	27,224	10,967	16,257
11-04-03	Library System	3,965	354	3,611
11-04-03	Public Health & Safety	35,500	2,405	33,095
Total		$ 430,959	$ 333,984	$ 96,975

[1] In addition to the debt authorized on May 1, 1999, and November 2003, the City has authority pursuant to an election held on January 26, 1980, to issue $16,660 in bonds. The City does not currently intend to issue the bonds authorized in 1980. An additional $115,000 was authorized November 4, 2003, of which $80,315 remains to be issued.

Debt Limitation

The amount of debt that the City may incur is limited by City Charter and by the Constitution of the State of Texas. The City Charter establishes a limitation on the general obligation debt supported by ad valorem taxes to an amount not to exceed 10% of the total assessed valuation. The total assessed valuation for the fiscal year ending 2004 was $49,723,286, which provides a debt ceiling of $4,972,328. The total outstanding debt that is secured by an ad valorem tax pledge is $883,755.

The Constitution of the State of Texas provides that the ad valorem taxes levied by the City for debt service and maintenance and operation purposes shall not exceed $2.50 for each one hundred dollars of assessed valuation of taxable property. There is no limitation within the $2.50 rate for interest and sinking fund purposes; however, it is the policy of the Attorney General of the State of Texas to prohibit the issuance of debt by a city if such issuance produces debt service requirements that exceed the amount that can be paid from $1.50 tax rate calculated at 90% collections.

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6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

1. Governmental Activity Long-Term Debt (Continued)

Leases

The City leases property and equipment from others. Leased property having elements of ownership are recorded in the government-wide financial statements. The related obligations, in amounts equal to the present value of minimum lease payments payable during the remaining term of the leases, are also recorded in the government-wide financial statements. Other leased property, not having elements of ownership, are classified as operating leases. Both capital and operating lease payments are recorded as expenditures when matured in the governmental fund financial statements. Total expenditures for operating leases for the fiscal year ended September 30, 2004, were approximately $3,085.

The City has entered into various lease purchase agreements for the acquisition of computers, copiers, fire trucks, golf equipment, public works equipment, a high capacity trailer, and a hazardous materials vehicle. These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present value of their future minimum lease payments as of the date of inception. Payments on each of the lease purchases will be made from budgeted annual appropriations to be approved by the City Council.

The assets acquired through capital leases for governmental activities are as follows:

Asset:	
Machinery and Equipment	$ 17,839
Less: Accumulated Depreciation	(5,705)
Total	$ 12,134

As of September 30, 2004, the City (excluding discretely presented component units) had future minimum lease payments under capital and operating leases with a remaining term in excess of one year for governmental activities as follows:

Leases - Governmental Activities

	Capital Leases	Operating Leases	Total
Governmental Activities:			
Fiscal year ending September 30:			
2005	$ 3,210	$ 2,483	$ 5,693
2006	1,864	2,271	4,135
2007	1,490	1,147	2,637
2008	869	652	1,521
2009	69	655	724
2010-2014		3,431	3,431
2015-2019		3,236	3,236
2020-2024		1,736	1,736
2025-2029		91	91
Future Minimum Lease Payments	7,502	$ 15,702	$ 23,204
Less: Interest	(376)		
Present Value of Future Minimum Lease Payments	7,126		
Less: Current Portion	(3,009)		
Capital Leases, net of current portion	$ 4,117		

(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

2. Business-Type Long-Term Debt

Business-Type long-term debt applies to those City operations that relate to business and quasi-business activities where net income and capital maintenance are measured (Enterprise and Internal Service Funds). Long-term debt, which is to be repaid from proprietary funds resources, is reported in the respective proprietary fund. The long-term indebtedness of the City's Enterprise Funds is presented in the discussion that follows.

Airport System: The Airport System includes the City of San Antonio International Airport and Stinson Municipal Airport and all land, buildings, structures, equipment, and facilities pertaining thereto. The Airport System's long-term debt is equally and ratably secured solely by a first lien on and pledge of the Gross Revenues of the Airport System. Gross Revenues of the Airport System include all revenues of any nature derived from contracts or use agreements with airlines and other users of the System and its facilities.

Parking System: The Parking System operation includes the ownership and operation of parking facilities, parking lots, parking meters, and retail/office space. Long-term debt is allocated to the Parking System on a pro-rata basis from proceeds received from the issuance of general obligation and certificate of obligation debt and is paid from revenues derived from the operation of the Parking System. This allocated debt is additionally secured by an ad valorem tax pledge. The bonds are payable from and secured by a first lien on and a pledge of the gross revenues derived from the ownership and operation of the City's Parking system. The bonds are retired serially in years 2004 to 2024 and bear interest rates from ranging from 5.000% to 5.750%.

In April 2004, the City issued $13,245 of General Improvement Refunding Bonds, Series 2004. Delivery of the bonds occurred on April 13, 2004. The obligations bear interest ranging from 2.000% to 5.000% and will be retired serially in the years 2006 through 2016. The bonds are secured by a pledge of ad valorem taxes and revenues from certain revenue generating operations. These obligations were issued to refund $11,747 of outstanding long-term debt, which was reported in proprietary funds.

The General Improvement and Refunding Bonds, Series 2004 were utilized to finance or refinance certain parking facilities owned and operated by the City. The Series 2004 Taxable General Improvement and Refunding Bonds are retired serially in the years 2005 through 2016 and bear interest rates ranging from 1.400% to 4.650%.

The net proceeds from the sale of the 2004 Taxable General Improvement and Refunding Bonds, less $11 of the original issue discount, was applied to fund an escrow fund for the redemption, discharge, and defeasance of the refunded obligations. As a result of the 2004 refunding, the City will realize a total increase of $584 in debt service payments. Through the transaction, the City obtained a total economic gain (difference between the present values of the debt service payments on the old and new debt) of $28.

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

2. Business-Type Long-Term Debt (Continued)

The following table is a summary of changes in revenue bonds, general obligation bonds, and tax-exempt certificates of obligation for the fiscal year ended September 30, 2004.

Business-type Long-Term Debt							
Issues	Original Amount	Final Principal Payment	Interest Rates (%)	Balance Outstanding October 1, 2003	Additions During Year	Deletions During Year	Balance Outstanding September 30, 2004
Airport System							
Revenue Bonds:							
Series 1996	$ 38,000	2014	5.700-5.750	$ 18,625	$ 0	$ 300	$ 18,325
Series 2001	17,795	2016	5.375	17,795			17,795
Series 2002	92,470	2027	5.000-5.750	92,470			92,470
Series 2002 PFC	37,575	2027	4.000-5.750	36,800		805	35,995
Series 2003 Refunding	50,230	2013	5.500-6.000	50,230		3,870	46,360
Series 2003-A	8,175	2006	2.000-2.250	6,245		2,035	4,210
Series 2003-B	3,255	2009	2.300-3.000	3,255			3,255
Subtotal	$ 247,500			$ 225,420	$ 0	$ 7,010	$ 218,410
Parking System							
Revenue Bonds:							
Series 2000	$ 24,845	2024	5.000-5.750	$ 24,845	$ 0	$ 400	$ 24,445
General Obligation Bonds:							
Series 1996A Refunding	495	2014	4.650-6.000	375		375	
Series 1998A Refunding	1,155	2013	4.000-5.250	1,050		1,050	
Series 2002 Refunding	11,370	2013	4.000-5.250	10,245		10,245	
Series 2003A Refunding	805	2016	2.000-5.000	805		805	
Series 2004A Refunding	13,245	2016	1.400-4.650		13,245		13,245
Tax Exempt Certificates of Obligation							
Series 1994	700	2004	6.000	35		35	
Series 1996	1,105	2005	5.100-5.200	100		100	
Subtotal	$ 53,720			$ 37,455	$ 13,245	$ 13,010	$ 37,690
Total	$ 301,220			$ 262,875	$ 13,245	$ 20,020	$ 256,100

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

2. Business-Type Long-Term Debt (Continued)

The annual requirements to amortize long-term debt for the City's Enterprise Funds related to revenue bonds, general obligations, and certificates of obligation outstanding at September 30, 2004, are as follows:

Business-Type Long-Term Debt

	Airport System			Parking System		
Year End Sept. 30:	Principal	Interest	Total	Principal	Interest	Total
2005	$ 8,390	$ 11,754	$ 20,144	$ 1,580	$ 1,790	$ 3,370
2006	8,790	11,381	20,171	1,930	1,747	3,677
2007	8,750	10,987	19,737	1,720	1,692	3,412
2008	9,265	10,545	19,810	1,790	1,632	3,422
2009	10,670	10,069	20,739	1,950	1,565	3,515
2010-2014	62,290	40,458	102,748	9,890	6,724	16,614
2015-2019	43,865	23,645	67,510	9,275	4,099	13,374
2020-2024	38,170	13,631	51,801	9,555	1,710	11,265
2025-2029	28,220	3,016	31,236			
Total	$ 218,410	$ 135,486	$ 353,896	$ 37,690	$ 20,959	$ 58,649

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6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

2. Business-Type Long-Term Debt (Continued)

Leases

The City has entered into various lease purchase agreements for the acquisition of computers, copiers, fire trucks, golf equipment, public works equipment, a high capacity trailer, and a hazardous materials vehicle. These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present value of their future minimum lease payments as of the date of inception. Payments on each of the lease purchases will be made from budgeted annual appropriations to be approved by the City Council.

The assets acquired through capital leases for business-type activities are as follows:

Asset:	
Machinery and Equipment	$ 709
Less: Accumulated Depreciation	(286)
Total	$ 423

As of September 30, 2004, the City (excluding discretely presented component units) had future minimum payments under capital leases with a remaining term in excess of one year for business-type activities as follows:

Leases - Business-type Activities: Nonmajor Enterprise Fund

	Capital Leases
Proprietary Activities	
Fiscal year ending September 30:	
2005	$ 156
2006	156
2007	117
Future Minimum Lease Payments	429
Less: Interest	(23)
Present Value of Future Minimum Lease Payments	406
Less: Current Portion	(143)
Capital Leases, net of current portion	$ 263

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

3. Governmental and Business-Type Long-Term Debt

Long-Term Obligations and Amounts Due Within One Year

Governmental Activities:	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable:					
General Obligation Bonds	$ 666,983	$ 33,570	$ 45,412	$ 655,141	$ 44,051
Tax-Exempt Commercial Paper	10,500		10,500		
Tax-Exempt Certificates of Obligation	196,280	29,525	11,335	214,470	11,665
Taxable Certificates of Obligation	5,165		585	4,580	
Revenue Bonds	234,918	121,815	92,036	264,697	2,435
	1,113,846	184,910	159,868	1,138,888	58,151
Unamortized (Discount)/Premium	33,836	9,488	2,981	40,343	2,968
Deferred Amount on Refunding	(7,913)	(11,805)	(3,855)	(15,863)	(6,714)
Total Bonds Payable	1,139,769	182,593	158,994	1,163,368	54,405
Other Liabilities:					
Accrued Arbitrage Rebate Payable	1,344	151	527	968	344
Capital Leases	9,796	665	3,335	7,126	3,009
Compensated Absences	115,826	53,119	47,409	121,536	44,547
Total Other Liabilities	126,966	53,935	51,271	129,630	47,900
Total Governmental Activities Long-term Liabilities	$ 1,266,735	$ 236,528	$ 210,265	$ 1,292,998	$ 102,305
Business-type Activities:					
Bond Payable:					
General Obligation Bonds	$ 12,475	$ 13,245	$ 12,475	$ 13,245	$ 450
Revenue Bonds	250,265		7,410	242,855	9,520
Tax-Exempt Certificates of Obligation	135		135		
	262,875	13,245	20,020	256,100	9,970
Unamortized (Discount)/Premium	3,545	3	1,564	1,984	
Deferred Amount on Refunding	(5,151)	(1,144)	(610)	(5,685)	
Total Bonds Payable	261,269	12,104	20,974	252,399	9,970
Other Payables:					
Aviation	1,595	2,783	1,294	3,084	3,084
Parking	357	286	124	519	519
Nonmajor Fund	1,061		10	1,051	1,051
Total Other Payables	3,013	3,069	1,428	4,654	4,654
Capital Leases-Nonmajor Fund	543		137	406	143
Compensated Absences	1,955	1,591	1,572	1,974	329
Total Other Liabilities	5,511	4,660	3,137	7,034	5,126
Total Business-type Activities Long-term Liabilities	$ 266,780	$ 16,764	$ 24,111	$ 259,433	$ 15,096

The accreted interest through Fiscal Year 2004 has resulted in an increase of $11,796 in Hotel Tax Revenue Bonds Payable in governmental activites and an increase of $7,837 in General Obligation Bonds Payable. The accreted interest in the amount of $19,633 is reflected on the Statement of Net Assets but is not reflected in this table.

(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

3. Governmental and Business-type Long-Term Debt (Continued)

Compensated Absences

The following is a summary of compensated absences for the year ended September 30, 2004:

	Governmental Activities				
Fund Type	Short-Term Available	Short-Term Remaining	Total Short-Term	Long-Term	Total
Governmental Funds	$ 5,773	$ 38,576	$ 44,349	$ 75,999	$ 120,348
Internal Service Funds		198	198	990	1,188
Total Governmental Activities	$ 5,773	$ 38,774	$ 44,547	$ 76,989	$ 121,536

	Business-Type Activities		
Fund	Short-Term	Long-Term	Total
Airport	$ 174	$ 872	$ 1,046
Parking	18	89	107
Non-Major Fund	137	684	821
Total Business-Type Activities	$ 329	$ 1,645	$ 1,974

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

3. Governmental and Business-type Long-Term Debt (Continued)

Conduit Debt Obligations

The City facilitates the issuance of bonds to enable the San Antonio Industrial Development Authority, Health Facilities Development Corporation and the Education Facilities Corporation (formerly known as Higher Education Authority), component units of the City, to provide financial assistance to various entities for the acquisition, construction, or renovation of facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired property transfers to the entity served by the bond issuance. As of September 30, 2004, there were thirty-five series of Industrial Revenue Bonds, fifteen series of Health Facilities Development Bonds, and thirteen series of Education Facility Revenue Bonds outstanding. The aggregate principal amount payable for the one series of Industrial Revenue Bonds, the one series of Health Facilities Development Bonds, and the four series Education Facility Revenue Bonds issued after October 1, 1997 was $5,500, $9,200, and $65,057, respectively.

The City also facilitates the issuance of tax-exempt revenue bonds to enable the San Antonio Housing Finance Corporation to provide financing of residential developments for persons of low and moderate income. The bonds are secured by the property financed and are payable solely from and secured by a pledge of rental receipts. As of June 30, 2004, twenty-three (23) series of tax-exempt revenue bonds were outstanding, with an aggregate principal amount payable of $131,255 and an aggregate principal amount issued of $164,320.

To provide for the acquisition and construction of certain airport facilities, the City has issued Special Facilities Airport Revenue Bonds, Series 1995 and Special Airport Facilities Revenue Refunding Bonds, Series 1999. The bonds are payable pursuant to lease agreements, which stipulate that various commercial entities are obligated to pay amounts to a third party trustee in-lieu of lease payments to the City. These payments are sufficient to pay when due the principal, premium, interest on, and purchase price of the bonds. The aggregate principal amount payable for the Special Facilities Airport Revenue Bonds, Series 1995 and for the Special Airport Facilities Revenue Refunding Bonds, Series 1999 at September 30, 2004, was $0 and $4,200, respectively.

The Starbright Industrial Development Corporation was created to act on behalf of the City in the promotion and development of commercial, industrial and manufacturing enterprises to promote and encourage employment and the public welfare, including but not limited to the acquisition of land. The City of San Antonio, Starbright Industrial Development Corporation Contract Revenue Bonds, Series 2003 were issued to finance the acquisition and conveyance of land to Toyota Motor Manufacturing North America, Inc. for the construction of a training facility. The bonds are secured by pledged revenues and property and are payable solely from payments made by the City sufficient to pay principal and interest on the bonds and are subject to annual budget appropriations. The bonds are not reported as liabilities in the accompanying financial statements. As of September 30, 2004, the Starbright Industrial Development Corporation Contract Revenue Bonds outstanding totaled $24,685.

Neither the City, the State of Texas, nor any political subdivision is obligated in any manner for repayment of the aforementioned bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

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6. LONG-TERM DEBT (Continued)

B. City Public Service (CPS)

As of January 31, 2004, the Bond Ordinances for New Series Bonds issued on and after August 6, 1992, contain, among others, the following provisions:

Funds in CPS's General Account shall be pledged and appropriated to be used in the following priority: (a) for maintenance and operating expenses of the systems, (b) for payments of the New Series Bonds, (c) for the payment of any obligations inferior in lien to the New Series Bonds which may be issued, (d) for an amount equal to 6% of the gross revenues of the systems to be deposited in the Repair and Replacement Account, (e) for cash payments and benefits to the City not to exceed 14% of the gross revenues of the systems, and (f) any remaining net revenues in the General Account to the Repair and Replacement Account.

The maximum amount in cash to be transferred or credited to the General Fund of the City from the net revenues of the systems during any fiscal year shall not exceed 14% of the gross revenues of the systems less the value of gas and electric services of the systems used by the City for municipal purposes and the amounts expended during the fiscal year for additions to the street lighting system. The percentage of gross revenues of the systems to be paid over or credited to the General Fund of the City each fiscal year shall be determined (within the 14% limitation) by the governing body of the City.

The net revenues of the systems are pledged to the payment of principal and interest on the New Series Bonds. All New Series Bonds and the interest thereon shall have a first lien upon the net revenues of the systems.

The City agrees that it will at all times maintain rates and charges for the sales of electric energy, gas, or other services furnished, provided, and supplied by the systems to the City and all other consumers which shall be reasonable and nondiscriminatory and which will produce income and revenues sufficient to pay:

(a) all maintenance and operating expenses, depreciation, replacement and betterment expenses, and other costs as may be required by Chapter 1502, as amended, Texas Government Code;
(b) the interest on and principal of all New Series Bonds, as and when the same shall become due, and for the establishment and maintenance of the funds and accounts created for the payment and security of the New Series Bonds;
(c) the interest on and principal of the Prior Lien Bonds, including the Junior Lien Obligations and any Additional Junior Lien Obligations hereafter issued (all as defined in the New Series Bond Ordinances); as and when the same shall become due, and for the establishment and maintenance of the funds and accounts created for the payment and security of the Junior Lien Obligations and any Additional Junior Lien Obligations;
(d) to the extent the same are reasonably anticipated to be paid with available revenues (as defined in the ordinance authorizing the Commercial Paper), the interest on and principal of all Notes (as defined in said ordinance), and the credit agreement (as defined in said ordinance); and
(e) a legal debt or obligation of the systems as and when the same shall become due.

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6. LONG-TERM DEBT (Continued)

B. City Public Service (CPS) (Continued)

Revenue Bonds

A summary of revenue bonds is as follows:

City Public Service Revenue Bonds		
Bond Series	Weighted-Average Interest Rate on Outstanding Bonds	2004
Tax Exempt New Series Bonds, 1992-2003; 2005-2021	4.996%	$ 2,234,160
Taxable New Series		
Taxable New Series Bonds, 1998 & 2000; 2005-2021	6.696%	138,310
	5.109%	2,372,470
Tax-exempt Variable Rate Series Bonds, 2003, 2029-2033		250,000
Total revenue bonds outstanding		2,622,470
Less: Current maturities of bonds		121,245
Total Revenue Bonds, net of current maturities		$ 2,501,225

Principal and interest amounts due for the next five years and thereafter to maturity are:

City Public Service
Principal and Interest Requirements

Year	Principal	Interest	Total
2005	$ 121,245	$ 127,214	$ 248,459
2006	127,255	121,264	248,519
2007	135,155	114,642	249,797
2008	142,155	107,662	249,817
2009	148,570	100,422	248,992
2010-2014	862,080	377,503	1,239,583
2015-2019	616,925	170,485	787,410
2020-2024	219,085	26,413	245,498
2025-2029	50,000	12,375	62,375
2030-2033	200,000	4,950	204,950
Totals	$ 2,622,470	$ 1,162,930	$ 3,785,400

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6. LONG-TERM DEBT (Continued)

B. City Public Service (CPS) (Continued)

In May 2003, CPS issued $250,000 of variable rate Junior Lien Revenue Bonds. The bonds were issued initially in a weekly interest mode at par value. Of the proceeds, approximately $100,000 was issued to reimburse the Repair and Replacement account for prior capital improvements. The mode for Junior Lien Revenue Bonds or any portion thereof may be converted to a different mode, or to an auction rate with an interest rate period of different duration, at the direction of the City. Following such a conversion, the Junior Lien Revenue Bonds or portion thereof, will bear interest at the corresponding daily rate, weekly rate auction rate, commercial paper rate, term rate, or fixed rate.

In June 2003, CPS entered into a Forward Delivery Bond Purchase Agreement to issue $350,500 of New Series Refunding Bonds in November 2003. The bonds sold at a premium of $37,600 were issued to refund $375,500 of 1994-A New Series Bonds. The refunding transaction resulted in cash flow savings of $32,900, which equated to a present value savings of $24,000, or 6.39% of the par amount of refunded bonds. This transaction resulted in a loss for accounting purposes of $10,600, which has been deferred and will be amortized over the shorter of the life of the refunded or refunding bonds.

In July 2003, CPS issued $93,900 of New Series 2003A Revenue Refunding Bonds. The bonds were sold at a premium of $11,000 and were issued to advance refund $24,400 of 1994-A New Series Bonds, and $71,600 of 1995 New Series bonds. The refunding transaction resulted in a cash flow savings of $15,900, which equated to a present value savings of $5,800, or 6.09% of the par amount of the refunded bonds. This transaction resulted in a loss for accounting purposes of $7,900, which has been deferred and will be amortized over the shorter of the life of the refunded or refunding bonds.

In August 2002, $144,200 par value of 1997 Revenue and Refunding Bonds were legally defeased with cash. The net accounting loss of $7,100 reported included $149,700 paid for the actual defeasance, less the par value of the debt, plus unamortized reacquisition and bond issue costs net of float forward agreement proceeds of $1,600.

In September 2002, CPS issued $576,700 of Revenue and Refunding Bonds to refund $445,100 in certain outstanding New Series Bonds and to reimburse prior construction expenditures of $150,000. The bonds were sold at a combined net premium of $56,800.

The refunding bonds were issued to current refund $48,700 of 1992 New Series Bonds and advance refund $396,300 of other New Series Bonds. The refunding transaction resulted in cash flow savings of $24,100, which equated to a present value savings of $18,100, or 4.06% of the par amount of refunded bonds. This transaction resulted in a loss for accounting purposes of $34,400, which has been deferred and will be amortized over the shorter of life of the refunded or refunding bonds.

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

C. City Public Service (CPS) (Continued)

Long-Term Debt Activity

Issue	Original Amount	Final Principal Payment	Interest Rates (%)	Balance Outstanding February 1, 2003	Additions During Year	Decreases During Year	Balance Outstanding January 31, 2004
Revenue and Refunding Bonds							
1992 Tax-exempt	$ 700,805	2017	6.048	$ 68,860	$	$	$ 68,860
1994-A Tax-exempt	684,700	2014	5.008	505,150		436,185	68,965
1994-C Tax-exempt	56,000	2006	5.008	42,710			42,710
1995 Tax-exempt	125,000	2018	5.500	90,200		75,400	14,800
1997 Tax-exempt	350,000	2020	5.738	169,715			169,715
1997 Tax-exempt	311,170	2014	5.509	115,090		12,035	103,055
1998A Tax-exempt	785,515	2021	4.918	650,400		31,370	619,030
1998B Taxable	99,615	2020	6.343	93,650		1,835	91,815
2000A Tax-exempt	170,770	2017	5.374	23,875		4,410	19,465
2000B Taxable	50,425	2021	7.403	47,890		1,395	46,495
2001 Tax-exempt	115,280	2011	3.843	115,280		8,850	106,430
2002 Tax-exempt	436,090	2017	4.055	436,090			436,090
2002 Tax-exempt	140,615	2020	4.751	140,615			140,615
2003 Tax-exempt Junior Lien	250,000	2033	Variable		250,000		250,000
2003A Tax-exempt	93,935	2014	3.675		93,935		93,935
2003 Tax-exempt	350,490	2013	3.081		350,490		350,490
				2,499,525	694,425	571,480	2,622,470
Less Bond current maturities				100,015	21,230		121,245
Less Bond discount/(premium)				(62,490)	(48,645)	(7,179)	(103,956)
Less Bond acquisition costs				159,744	43,157	44,180	158,721
Revenue Bonds, Net				2,302,256	678,683	534,479	2,446,460
Tax-Exempt Commercial Paper (TECP)				350,000			350,000
Long-term Debt, Net				$ 2,652,256	$ 678,683	$ 534,479	$ 2,796,460

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

C. San Antonio Water System (SAWS)

On April 30, 1992, City Ordinance No. 75686 was adopted. This ordinance authorized the issuance of $635,925 Water System Revenue Refunding Bonds, Series 1992, dated April 15, 1992. These bonds were issued to refund in advance of maturity $253,065 Water Revenue Bonds authorized and outstanding under terms of City Ordinance No. 52091, $330,125 of Sewer Revenue Bonds authorized and outstanding under terms of City Ordinance No. 51975, $14,500 of other bonded debt of annexed water districts, and $49,200 of Sewer System Commercial Paper. The purpose of this advance refunding was to release and discharge the covenants contained in City Ordinance No. 52091 and No. 51975 in order to permit the City to consolidate the operations of the water related utilities.

The System: City Ordinance No. 75686 defines SAWS as all properties, facilities, plants owned, operated and maintained by the City and/or the Board of Trustees, for the supply, treatment, transmission, and distribution of treated potable water, chilled water and steam, for the collection and treatment of wastewater and for water reuse, together with all future extensions, improvements, purchases, repairs, replacements and additions thereto, and any other projects and programs of SAWS; however, the City retains the right to incorporate a stormwater system as provided by the Texas Local Government Code. See "Stormwater" below.

Funds Flow: City Ordinance No. 75686 requires that Gross Revenues of SAWS be applied in sequence to: (1) current maintenance and operating expenses including a two-month reserve based upon the budgeted amount of maintenance and operating expenses for the current fiscal year; (2) Debt Service Fund requirements of Senior Lien Obligations; (3) Reserve Fund requirements of Senior Lien Obligations; (4) Interest and Sinking Fund and Reserve Fund requirements of Junior Lien Obligations; (5) Interest and Sinking Fund and Reserve Fund requirements of Subordinate Lien Obligations; (6) Payment of amounts required on Inferior Lien Obligations; and (7) Transfers to the City's General Fund and to the Renewal and Replacement Fund.

Reuse Contract: SAWS has a contract with City Public Service, the City owned electricity and gas utility, for the provision of reuse water. The revenues derived from the contract have been restricted in use to only reuse activities, and are excluded from the calculation of Gross Revenues, and are not included in any transfers to the City's General Fund. Revenues derived from this contract were $2,000 during the twelve months ended December 31, 2003.

SAWS is developing a recycled water system that will provide non-potable water to various customers now using Edwards Aquifer water. During the twelve months ended December 31, 2003, SAWS generated an additional $2,456 in revenue from sales of recycled water. Revenue from recycled water sales is recorded as revenue of SAWS and has the same restrictions as the reuse contract.

Stormwater: In addition to the water related utilities which the Board has under its control, the City Council approved Ordinance No. 77949 on May 13, 1993, which established initial responsibilities over the Stormwater Program with the System and adopts a schedule of rates to be charged for stormwater services and programs. The Stormwater Program is deemed to not be a part of SAWS as the term is defined in City Ordinance No. 75686. Accordingly, operations of the Stormwater Program are not considered when determining compliance with debt covenants contained in City Ordinance 75686 or in calculating payments to be made to the City. In fiscal year 1997, the City Council placed the administrative responsibility with its own staff and entered into an interlocal agreement with SAWS for the provision of services related to certain water quality monitoring functions.

No Free Service: City Ordinance No. 75686 also provides for no free services except for municipal fire-fighting purposes.

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

C. San Antonio Water System (SAWS) (Continued)

Revenue Bonds

On March 27, 2003, SAWS issued $72,500 of City of San Antonio Water System Subordinate Lien Revenue and Refunding Bonds Series 2003-A, and $50,000 City of San Antonio Water System Subordinate Lien Revenue and Refunding Bonds Series 2003-B for a total principal amount of $122,500 in the variable rate bond market. The proceeds of the bonds were used (i) to provide funds for the purposes of acquiring, purchasing, constructing, improving, renovating, enlarging, and equipping the System, (ii) refund $76,000 in outstanding commercial paper notes, and (iii) pay the costs of issuing the Bonds. Since the proceeds were used to convert debt from short-term to long-term, there is no economic gain or loss associated with the refunding.

The City of San Antonio Water System Subordinate Lien Revenue and Refunding Bonds Series 2003-A and Series 2003-B were issued in the variable rate bond market and SAWS entered into an interest rate hedge agreement, which fixed the interest rate and realized a savings in comparison to a traditional fixed rate financing. This synthetic fixed rate, as obtained with the interest rate hedge agreement, provides a more favorable cost of capital to SAWS.

On August 26, 2003, SAWS issued $34,000 City of San Antonio Water System Junior Lien Revenue Bonds Series 2003 with the Texas Water Development Board. The bonds were sold under the Federal Cross Cutter Program with interest rates ranging from 0% - 3.10%. The proceeds from the sale of the Bonds were used to (i) finance capital improvement projects which qualify under the Texas Water Development Board Program and (ii) pay the cost of issuance. The bonds are secured together with other currently outstanding Junior Lien Obligations solely by a lien on a pledge of net revenues and are subordinate to outstanding Senior Lien Obligations.

Senior Lien Water System Revenue Bonds, comprised of Series 1996, Series 1997, Series 1999, Series 2001, Series 2002, and Series 2002-A outstanding in the amounts of $739,115 are collateralized by a senior lien and pledge of Gross Revenues of SAWS after deducting and paying the current expenses of operation and maintenance of SAWS and maintaining an operating reserve for operating and maintenance expenses. At December 31, 2003, these bonds are due in varying amounts, from a low of $955 in 2004 to a high of $58,405 in 2028.

Junior Lien Water System Revenue Bonds, comprised of Series 1999, Series 1999-A, Series 2001, and Series 2001-A, Series 2002, Series 2002-A and Series 2003 outstanding in the amount of $186,830 at December 31, 2003, and are collateralized by a junior lien and pledge of the gross revenues of SAWS after deducting and paying the current expenses of operation and maintenance of SAWS, maintaining an operating reserve for operating and maintenance expenses, and debt service on senior lien debt. At December 31, 2003, the Junior Lien bonds were due in varying amounts, from a low of $2,720 in 2023 to a high of $15,295 in 2019.

Subordinate Lien Water System Revenue Bonds, comprised of Series 2003-A and 2003-B outstanding in the amount of $122,500 at December 31, 2003, are collateralized by a subordinate lien and pledge of the Gross Revenues of SAWS after deducting and paying the current expenses of operation and maintenance expenses, and debt service on senior lien and junior lien debt. At December 31, 2003, the Subordinate Lien Bonds are due in varying amounts, from a low of $1,985 in 2004 to a high of $7,240 in 2033.

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

C. San Antonio Water System (SAWS) (Continued)

Revenue Bonds (Continued)

Revenue bonds currently outstanding are as follows:

San Antonio Water System

Purpose	Interest Rates	Amount
Build, improve, extend, enlarge, and repair the System	0.00-6.25%	$ 1,048,445

The following summarizes transactions of the revenue bonds for the year ended December 31, 2003:

	Beginning Balance Jan. 1, 2003	Additions	Reductions	Ending Balance Dec. 31, 2003	Due Within One Year
Bonds Payable	$ 897,460	$ 156,500	$ (5,515)	$ 1,048,445	$ 7,735
Deferred Amounts					
For issuance discounts/ premiums/losses	(30,746)	(270)	1,214	$ (29,802)	
Total Bonds Payable, Net	$ 866,714	$ 156,230	$ (4,301)	$ 1,018,643	$ 7,735

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

C. San Antonio Water System (SAWS) (Continued)

Annual debt service requirements are shown as follows:

San Antonio Water System
Annual Debt Service Requirements
Revenue Bonds

Year Ended December 31,	Subordinate Lien Revenue and Refunding Bonds		Junior Lien Revenue and Refunding Bonds		Senior Lien Revenue and Refunding Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	$ 1,985	$ 5,120	$ 4,795	$ 6,318	$ 955	$ 38,773
2005	2,080	5,038	4,935	6,168	9,480	38,538
2006	2,170	4,951	5,090	6,008	15,145	37,908
2007	2,275	4,860	7,840	5,806	13,310	37,113
2008	2,375	4,764	8,075	5,558	17,210	36,274
2009-2013	13,615	22,240	54,855	23,058	93,670	167,236
2014-2018	17,005	19,123	65,210	12,729	118,310	139,379
2019-2023	21,250	15,231	36,030	2,174	178,825	101,060
2024-2028	26,560	10,365			259,285	42,680
2029-2033	33,185	4,285			32,925	3,395
Total	$ 122,500	$ 95,977	$ 186,830	$ 67,819	$ 739,115	$ 642,356

Capitalized Interest Costs

Interest costs incurred on revenue bonds and short-term commercial paper debt totaled $50,688 during the twelve months ended December 31, 2003, of which $13,714 was capitalized as part of the cost of SAWS' utility plant additions.

Leases

SAWS entered into various lease agreements for financing the acquisition of computer equipment and heavy equipment. These lease agreements meet the requirements of capital leases for accounting purposes and therefore, are recorded at the present value of the future minimum lease payments as of the inception date. The terms of the leases are from two to five years with payments of $29,097 monthly and $341,430 annually. The annual percentage rate of the leases ranges from 5.5% to 7.5%. At the end of the respective lease terms, the ownership of the equipment transfers to SAWS or SAWS has the option to purchase the equipment. SAWS recorded capital leases related to computer equipment and heavy equipment in the amount of $401,654 and $570,487, respectively. Please note the amounts in this paragraph are not stated in thousands.

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6. LONG-TERM DEBT (Continued)

C. San Antonio Water System (SAWS) (Continued)

The future minimum lease obligations as of December 31, 2003, are as follows:

San Antonio Water System
Minimum Lease Obligation

Year Ending December 31,	Principal	Interest	Total Annual Requirements
2004	$ 311	$ 30	$ 341
2005	262	12	274
2006	8		8
Total	$ 581	$ 42	$ 623

Note Payable

During fiscal year 2000, a contract was entered into between SAWS and CPS whereby SAWS acquired water rights from certain CPS properties. A note was signed for 116 payments of $40 at an interest rate of 7.5%. Total payments on this note are $4,640 including interest. The liability as of December 31, 2003, is included in the statement of net assets for both the current portion of $336 and long-term amount of $1,742. The annual principal and interest requirements are as follows:

San Antonio Water System
Principal and Interest Requirements

Year Ending December 31,	Principal	Interest	Total Annual Requirements
2004	$ 336	$ 144	$ 480
2005	362	118	480
2006	390	90	480
2007	420	60	480
2008	452	28	480
2009	118	2	120
Total	$ 2,078	$ 442	$ 2,520

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7. COMMERCIAL PAPER PROGRAMS AND OTHER BORROWINGS

A. Primary Government (City)

Commercial Paper

On November 9, 2000, the City Council approved issuance of $35,000 Sales Tax Commercial Paper Notes, Series A. The proceeds from the sale of the Notes are to provide for the planning, acquisition, establishment, development, construction, and renovation of the "Parks Development and Expansion Venue Project" authorized at an election held on May 6, 2000 which includes the acquisition of open space over the Edwards Aquifer Recharge Zone and linear parks along Leon Creek and Salado Creek, and the construction of improvements or additions to such Open Space Parks and Linear Parks. The Notes were supported by an irrevocable direct-pay Letter of Credit, dated as of December 5, 2000, issued by Landesbank Hessen-Thuringen Girozentrale, acting through its New York Bank (Helaba or the Bank). The Letter of Credit in an amount equal to $37,589 enabled the City to pay at maturity the principal amount of the Notes plus up to 270 days interest.

The City sold $32,700 in Sales Tax Revenue Commercial Paper Notes in fiscal year 2001.

The City made the determination that it would not renew the existing Letter of Credit and Reimbursement Agreement, which was due to, expire on November 30, 2003, pertaining to the City's existing Sales Tax Commercial Paper Program (the "Program"). The City made the determination that it would not take the actions at that point in time to secure a substitute credit provider for the Program, it paid from lawfully available funds on hand all outstanding notes at maturity (outstanding in the principal amount of $10,500 scheduled to mature on November 3, 2003, November 5, 2003, and November 7, 2003), and it will not issue any additional Commercial Paper Notes.

Revolving Line of Credit

The City uses a revolving line of credit for the Housing Asset Recovery Program. The line of credit is used to preserve housing stock and to revitalize neighborhoods by renovating and rehabilitating property owned by the City that is acquired through various programs (i.e. flood buyouts, facilities expansion, etc.). The City intends to finance their repayment with the proceeds received from the sale of the renovated houses. The amount of the line of credit is $1,250, of which $301 was outstanding as of September 30, 2004.

Revolving Line of Credit

Beginning Balance	Increases	Decreases	Ending Balance
$ 331	$ 8	$ 38	$ 301

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(amounts are expressed in thousands)

7. COMMERCIAL PAPER PROGRAMS AND OTHER BORROWINGS (Continued)

B. City Public Service (CPS)

Commercial Paper

In 1988, the City Council adopted an ordinance authorizing the issuance of up to $300,000 in Tax-Exempt Commercial Paper (TECP). This ordinance, as amended in June 1997, provides for funding to assist in the financing of eligible projects, in an aggregate amount not to exceed $450,000. Eligible projects include fuel acquisition, capital improvements to the utility systems (the Systems), and refinancing or refunding any outstanding obligations that are secured by and payable from a lien on and/or a pledge of net revenues of the Systems. The program's scheduled maximum maturities will not extend beyond November 1, 2028.

The TECP has been classified as long-term in accordance with the refinancing terms under a revolving credit agreement with a consortium of banks, which supports the commercial paper. Under the terms of the agreement, CPS may borrow up to an aggregate amount not to exceed $350,000 for the purpose of paying principal due under the TECP. The credit agreement has a term of two years, currently extended until November 1, 2005, and may be renewed for additional periods.

To date, there have been no borrowings under the credit agreement. The TECP is secured by the net revenues of the Systems. Such pledge of net revenues is subordinate and inferior to the pledge securing payment of existing New Series Bonds and any to be issued in the future.

As of January 31, 2004, a summary of TECP is as follows:

TECP Outstanding	$ 350,000
Weighted-average interest rate of outstanding TECP, approximate	1.01%
Average life of outstanding TECP (approximate number of days)	86

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(amounts are expressed in thousands)

7. COMMERCIAL PAPER PROGRAMS AND OTHER BORROWINGS (Continued)

C. San Antonio Water System (SAWS)

Commercial Paper

SAWS maintains a Commercial Paper Program that is used to provide funds for the interim financing of a portion of capital improvements to the System.

On January 11, 2001, the City Council approved the expansion of the TECP Program (Tax Exempt Commercial Paper) from $175,000 to $350,000. The increase in the program provides interim financing for the increased level of future expenditures on water resource projects. Notes payable under the program cannot exceed maturities of 270 days and scheduled maturities of the short-term borrowing under the Commercial Paper Program may not extend past May 14, 2032.

The City has covenanted in the ordinance authorizing the Commercial Paper Program (the "Note Ordinance") to maintain at all times credit facilities with banks or other financial institutions which would provide available borrowing sufficient to pay the principal of the Commercial Paper Program. The credit facility is maintained under the terms of a revolving credit agreement.

To further support the issuance of the Commercial Paper Program, on June 2, 2001, the City entered into the agreements with the following:

- Dealer Agreements with Goldman, Sachs & Co., J.P. Morgan Securities Inc., and Ramirez & Co., Inc.
- Revolving Credit Agreement with Westdeutsche Landesbank Girozentrale and Landesbank Baden Wurttemberg.
- Issuing and Paying Agency Agreement with Bank One, National Association Chicago, Illinois.

The borrowings under the Commercial Paper Program are equally and ratably secured by and are payable from (i) the proceeds from the sale of bonds or additional borrowing under the Commercial Paper Program and (ii) borrowing under and pursuant to the revolving credit agreement.

Commercial paper notes of $269,000 are outstanding as of December 31, 2003. The proceeds of the notes have been used solely for financing of capital improvements of SAWS. The tax exempt commercial paper notes have been classified as long-term in accordance with the refinancing terms of the Credit Agreement and since management intends to continue the remarketing of the tax exempt commercial paper notes to maintain a portion of its debt in variable rates. Interest rates on the notes outstanding at year-end range from .90% to 1.20% and from 10 to 132 days in maturity. (The outstanding notes at December 31, 2003, had an average rate of 1.05% and averaged 55 days to maturity.)

The following summarizes transactions of the commercial paper program for the year ended December 31, 2003.

	Beginning Balance Jan. 1, 2003	Additions	Reductions	Ending Balance Dec. 31, 2003	Due Within One Year
Commercial Paper Notes	$255,000	$90,000	$76,000	$269,000	$0

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(amounts are expressed in thousands)

8. PENSION AND RETIREMENT PLANS

A. General Plan Information

The City of San Antonio, SAWS, and CPS participate in several contributory retirement plans. These are funded plans covering substantial full-time employees. Payroll and contribution information as of the year-end for each entity is presented below:

Contributory Pension and Retirement Plans

Entity	Title	Type of Plan	Covered Payroll	Employee Contribution	Employer Contribution	Total Contributions
City	Fire and Police Pension Fund	Single Employer Defined Benefit Plan	$ 194,647	$ 24,129	$ 48,038	$ 72,167
	Texas Municipal Retirement System (TMRS)	Non Traditional Hybrid Defined Benefit Agent Plan	$ 199,180	11,952	23,062	35,014
Component Units:						
SAWS	[1]Texas Municipal Retirement System (TMRS)	Non Traditional Defined Contribution Agent Plan	Not Available	1,736	1,905	3,641
	[2]PMLIC Contract	Agent Multiple Employer Defined Benefit Plan	$ 55,364		3,324	3,324
CPS	[3]CPS All Employees Plan	Single Employer Defined Benefit Plan	$ 186,732	9,032	7,959	16,991

[1] Plan year ended December 31, 2003
[2] Plan year ended December 31, 2003
[3] Fiscal year ended January 31, 2004

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(amounts are expressed in thousands)

8. PENSION AND RETIREMENT PLANS (Continued)

B. Primary Government (City)

Fire and Police Pension Plan

The Pension Fund is a single-employer defined benefit retirement plan established in accordance with the laws of the State of Texas. The City provides retirement benefits for all eligible full-time Fire and Police employees through the Pension Fund. Employees who terminate, having five to twenty years of service, may apply to receive a refund of their original contribution. Employees retiring who have served and contributed for twenty years or more shall, upon application to the Board of Trustees of the Pension Fund, receive a retirement pension based on the average of the employee's total salary, excluding overtime pay, for the highest three years of pay of the last five years of service. The retirement annuity for employees retiring after September 30, 2001, is computed at the rate of 2.25% of this average for each of the first twenty years of service, plus 4.5% of the member's average total salary for each of the next seven years, plus 3% of the member's average total salary for each of the next three years of service, plus 0.5% of the member's average total salary for each of the next four years of service, with fractional years of service prorated based on full months served as a contributing member. In making the computation for a year, the year is considered to begin on the first day a contribution is made. A retirement annuity under this subsection may not exceed, as of the date of retirement, 87.5% of the member's average total salary.

An employee with twenty years and one month of actual service credit may at the time of retirement elect a Backward Deferred Retirement Option Plan (Back DROP). The Back DROP election results in a lump sum payment equal to the number of full months of service elected by an employee that does not exceed the lesser of the number of months of service credit the employee had in excess of twenty years or thirty-six months and a reduced annuity payment.

There is also a provision for a 13th and a 14th pension check. The Board may authorize the disbursement of a 13th monthly pension check if the yield on the Pension Fund's investments exceeds the actuarial projections for the preceding five year period by at least 100 basis points. The Board may authorize a 14th monthly pension check if the yield on the Pension Fund's investments exceeds the actuarial projections for the preceding five year period by at least 300 basis points. The 13th and 14th pension checks are paid to each retiree and beneficiary receiving a pension at the time of the disbursement and are in an amount equal to the pension check paid in the last month of the preceding fiscal year of the Pension Fund (retirees/beneficiaries with less than one year of benefits will receive a prorated check, and no check will be paid to members who retired after the end of the fiscal year).

If service is terminated by reason of death or disability, the employee's beneficiary or the employee shall be entitled to one-half of the average of the employee's total salary, excluding overtime pay, based on the same number of years of the member's pay as used to compute normal retirement benefits. If a member is killed in the line of duty, the member's surviving spouse and dependent children are entitled to a pension based upon actual base salary at time of death.

The Pension Fund issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to the Fire and Police Pension Fund of San Antonio, 311 Roosevelt, San Antonio, Texas 78210-2700 or by calling (210) 534-3262.

Contribution requirements of plan members and the City are established and may be amended by State statute. In the current year, the City contributed 24.64% of covered payroll and employees contributed 12.32% of covered payroll. The employer's required contribution of $48,038 and the employee's required contribution of $24,129 were made to the Pension Fund. (See summary of contribution information at Part A of this footnote).

8. PENSION AND RETIREMENT PLANS (Continued)

B. Primary Government (City) (Continued)

Fire and Police Pension Plan (Continued)

Effective October 1, 2001, in addition to the changes for credited service and the 14th check as mentioned previously, other new provisions include allowing the surviving spouse of an active member to elect to receive benefits in the form of a lump-sum payment and reduced annuity, similar to a Back DROP election made by a retiring member, increasing the maximum benefit for surviving spouses and dependent children equal to a 27 year pension, and increasing cost-of-living increases for all retirees who retired between August 30, 1971 and October 1, 1991.

For the year ended September 30, 2004, the City's annual pension cost of $48,038 for the Pension Fund was equal to the City's required and actual contributions. The annual required contribution was determined as part of the October 2003 actuarial valuation using the entry-age actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return, and (b) projected salary increase of 5.5% per year. Both (a) and (b) included an inflation component of 4.5%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The Pension Fund's unfunded actuarial liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at October 1, 2003, was 28.0 years.

Texas Municipal Retirement System (TMRS)

The City provides benefits for all eligible employees (excluding firefighters and police officers) through a nontraditional, joint contributory, hybrid defined benefit plan in the TMRS. The TMRS is a statewide agent multiple-employer public employee retirement system created by law in 1948 to provide retirement and disability benefits to city employees. It is the opinion of the TMRS management that the plans in TMRS are substantially defined benefit plans, but they have elected to provide additional voluntary disclosure to help foster a better understanding of some of the nontraditional characteristics of the plan.

TMRS issues a publicly available financial report that includes financial information related to participating municipalities. The report may be obtained by writing to the TMRS, P.O. Box 149153, Austin, Texas 78714-9153 or calling (512) 476-7577.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percentage of the employee's accumulated contributions. In addition, the City may grant, as often as annually, another type of monetary credit referred to as an updated service credit. This is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average salary for the last three years. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the City-financed monetary credits with interest were used to purchase an annuity.

Members are eligible to retire upon attaining the normal retirement age of 60 and above with 5 or more years of service or with 20 years of service regardless of age. The plan also provides death and disability benefits. A member is vested after 5 years, but must leave accumulated contributions in the plan. If a member withdraws the contributions with interest, the member would not be entitled to the City-financed monetary credits, even if vested.

8. PENSION AND RETIREMENT PLANS (Continued)

B. Primary Government (City) (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

The plan provisions and contribution requirements are adopted by the governing body of the City within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

Contribution requirements are actuarially determined by TMRS's actuary (See summary of TMRS Actuarial Assumptions and Methods in Part F of this footnote). The contribution rate for the City's employees is 6% and the matching percent is currently 11.63%, both as adopted by the governing body of the City. (See summary of contribution information in Part A of this footnote). Under the state law governing TMRS, the Employer's Contribution rates are annually determined by the actuary. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time the employee's retirement becomes effective. The prior service contribution rate amortizes the unfunded actuarial liability over the remainder of the plan's twenty-five year amortization period. When the City periodically adopts updated service credits and increases annuities in effect, the increased unfunded actuarial liability is being amortized over a new twenty-five year period. Currently, the unfunded actuarial liability is being amortized over a constant twenty-five year period as a level percent of payroll. Contributions are made monthly by both the employees and the City. All current year required contributions of the employees and the City were made to TMRS. Due to the fact that the City requires the contribution rates in advance for budget purposes, there is a one-year lag between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect.

C. San Antonio Water System (SAWS)

SAWS' retirement program includes benefits provided by the Texas Municipal Retirement System, a contract with Principal Mutual Life Insurance Company, and Social Security.

Covered employees are eligible to retire upon attaining the normal retirement age of 65. An employee may elect early retirement, with reduced benefits, upon attainment of:

1. 20 Years of credited service regardless of age, or
2. 25 Years of credited service and at least age 50, or
3. 10 Years of credited service and at least age 60.

The normal retirement benefit is based upon two factors, average compensation and years of credited service. Average Compensation is defined as the monthly average of total compensation received for the three consecutive years ending December 31, out of the latest ten compensation years prior to normal retirement date which gives the highest average.

The normal retirement benefit under the Principal Mutual contract is equal to:

1. 1.2% of the Average Compensation, times years of credited service not in excess of 25 years, plus
2. 0.75% of the Average Compensation, times years of credited service in excess of 25 years but not in excess of 35 years, plus
3. 0.375% of the Average Compensation, times years of credited service in excess of 35 years.

8. PENSION AND RETIREMENT PLANS (Continued)

C. San Antonio Water System (SAWS) (Continued)

Upon retirement, an employee must select from one of seven alternative payment plans. Each payment plan provides for monthly payments as long as the retired employee lives. The options available address how plan benefits are to be distributed to the designated beneficiary of the retired employee. The program also provides death and disability benefits. The following information related to the Texas Municipal Retirement System and Principal Mutual Life Insurance has been prepared as of January 1, 2002.

Texas Municipal Retirement System (TMRS)

SAWS provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, defined benefit plan in the Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The TMRS was established in 1948 as a retirement and disability pension system for municipal employees in the State of Texas, and is administered in accordance with the Texas Municipal Retirement System Act. It is the opinion of the TMRS management that the plans in the TMRS are substantially defined benefit plans, but they have elected to provide additional voluntary disclosure to help foster a better understanding of some of the nontraditional characteristics of the plan.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the SAWS-financed monetary credits, with interest. At the date the plan began, SAWS granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, and 200%) of the employee's accumulated contributions. In addition, SAWS may grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and SAWS matching percent had always been in existence and if the employee's salary had always been the average salary for the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at age 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years. The plan provisions and contribution requirements are adopted by SAWS within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

Contribution requirements are actuarially determined by TMRS's Actuary (See Summary of TMRS's Actuarial Assumptions and Methods in Part F of this footnote). The contribution rate for the employees is 3% of salary, and SAWS matching rate approximates 100% of the employee rate, both as adopted by the SAWS. Under the state law governing TMRS, SAWS' contribution rate is annually determined by the actuary. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to SAWS' matching percent, which are the obligation of SAWS as of an employee's retirement date not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of SAWS to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period.

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8. PENSION AND RETIREMENT PLANS (Continued)

C. San Antonio Water System (SAWS) (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

When SAWS periodically adopts updated service credits and increases the annuities in effect, the increased unfunded actuarial liability is to be amortized over a new twenty-five year period. Currently, the unfunded actuarial liability is to be amortized over the twenty-five year period. The unit credit actuarial cost method is used for determining SAWS contribution rate.

Contributions are made monthly by both the employees and SAWS. Since SAWS needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect. Significant assumptions used in the actuarial valuation of annual required contributions include a rate of return on the investment of present and future assets of 8.0% per year. Additionally, there is no need to project salary increases since the benefit credits earned for service to date are not dependent on future salaries. Likewise, inflation and cost-of-living adjustments are not accounted for in the actuarial study. Assets are valued at amortized cost.

Principal Mutual Life Insurance Company

The contract with Principal Mutual Life Insurance Company (PMLIC) serves as a supplement to the TMRS and Social Security benefits. SAWS' covered payroll at January 1, 2003, under this contract was $55,364.

SAWS provides supplemental pension benefits for all persons customarily employed at least 20 hours per week and five months per year through this defined benefit plan. Employees are eligible to participate in the plan on January 1 of the calendar year following date of hire. An employee covered by the plan may vest a portion of the plan benefits if termination occurs after sufficient years of service have been credited. The plan allows an employee to accrue vesting benefits as follows:

Years of Service	Vested Percentage
Less than 5	0%
5	50%
6	60%
7	70%
8	80%
9	90%
10 or more	100%

An employee is automatically 100% vested upon attainment of age 65 or upon becoming totally and permanently disabled.

Benefits for retired employees are fully guaranteed at retirement. The pension plans unallocated insurance contracts are valued at contract value. Contract value represents contributions made under the contract, plus interest at the contract rate, less funds used to purchase annuities or pay administrative expenses charged by Principal Life Insurance Co. The plan provisions and contribution requirements are governed by SAWS, which may amend plan provisions and is responsible for the management of plan assets.

Significant assumptions used by PMLIC's actuary to compute the actuarially determined contribution requirements include: (a) a rate of return on the investment of present and future assets of 8.25% per year, and (b) salary scale from Table S-5 of the Actuary's Pension Handbook, plus 3.4%.

8. PENSION AND RETIREMENT PLANS (Continued)

C. San Antonio Water System (SAWS) (Continued)

Principal Mutual Life Insurance Company (Continued)

The PMLIC contract funding policy provides for actuarially determined periodic contributions so that sufficient assets will be available to pay benefits when due. The actuarial cost method is known as the Entry Age Normal-Frozen Initial Liability Method. This method spreads the total cost of the projected pension benefits for each employee evenly from the date the employee is first eligible for the plan to the employee's assumed retirement date. As plan benefits are related to compensation, the cost is spread as a level percentage of compensation. The total of annual amounts for all employees combined is called the Normal Cost. The employee's Entry Age is determined as if the plan had always been in existence. Thus, as of the plan effective date, there are some accumulated Normal Costs for past years that have not been paid. The value of these costs is called the Frozen Initial Liability.

In subsequent years the Frozen Initial Liability is reduced by employer deposits to the plan in excess of employer Normal Cost and interest requirements. This reduced amount is known as the Unfunded Frozen Initial Liability. Contribution requirements are established and may be amended by SAWS. Active members are not required to contribute to the plan. Any obligation with respect to the pension plan shall be paid by SAWS. The actuarial valuation, which was performed for the plan year, ended December 31, 2002 reflects an unfunded frozen initial liability of $10,692.

The PMLIC issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to Principal Life Insurance Company, Pension Diversified Retirement Services, Des Moines, Iowa 50392-0001 or by calling (515) 247-5111.

D. City Public Service (CPS)

All Employee Plan

The CPS Pension Plan is a self-administered, single-employer, defined-benefit contributory pension plan (Plan) covering substantially all employees who have completed one year of service. Normal retirement is age 65; however, early retirement is available with 25 years of benefit service and to those employees who are ages 55 or older with at least 10 years of benefit service. Retirement benefits are based on length of service and compensation, and benefits are reduced for retirement before age 55 with 25 years or more of benefit service, or age 62 with less than 25 years of service.

The Plan and contribution requirements are sponsored by and may be amended by CPS, acting by and through the General Manager and Chief Executive Officer of CPS. The Plan assets are held in a separate trust that is annually audited and which financial statements include historical trend information. Additional information may be obtained by writing the Employee Benefits Division of CPS, P.O. Box 1771, San Antonio, Texas 78296 or by calling (210) 978-2484.

Funding levels are established through annual actuarial evaluations and recommendations of an Administrative/Investment Committee, using both employee and employer contributions. Participating employees contribute 5% of their total compensation and are fully vested after completing 7 years of credited service or at age 40. The balance of contributions made amounted to 4.3% and is the responsibility of CPS, considering actuarial information, budgetary compliance, and the need to amend the Plan with legal requirements. (See Summary of Contribution Information at Part A of this footnote).

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(amounts are expressed in thousands)

8. PENSION AND RETIREMENT PLANS (Continued)

D. City Public Service (CPS) (Continued)

All Employee Plan (Continued)

As calculated under GASB Statement No. 27, CPS' annual pension cost and net pension obligation for the fiscal year ended January 31, 2004, was $7,651. The annual required contribution was determined as part of the January 1, 2003, actuarial valuation using (a) the five-year smoothed market method for asset valuation, (b) the projected unit credit for pension cost, and (c) the level dollar open for amortization. The remaining amortization period is 10.16 years and is calculated using the level dollar open amortization method.

Significant actuarial assumptions used for the January 1, 2003, actuarial valuation include (a) a rate of return on the investment of present and future assets of 8.5% per year compounded annually, (b) projected salary increases averaging 5.0%, and (c) post-retirement cost-of-living increases of 2.0%. The projected salary increases include an inflation rate of 4.0%.

E. Three Year Trend Information

Trend information compares the annual required contribution to annual pension cost and the resultant net pension obligation as required by GASB Statement No. 27.

Three Year Trend Information

Pension Plan	Fiscal Year	Annual Required Contribution (ARC)	Interest on Net Pension Obligation (NPO)	Adjustment To ARC	Annual Pension Cost (APC)	Contributions In relation to ARC	Increase (Decrease) in NPO	Net Pension Obligation at Beginning of Year	Net Pension Obligation at End of Year	Percentage of APC Contributed
Fire and Police Pension-City of San Antonio	2002	43,615			43,615	(43,615)				100%
	2003	45,008			45,008	(45,008)				100%
	2004	48,038			48,038	(48,038)				100%
TMRS-City of San Antonio	2002	23,147			23,147	(23,147)				100%
	2003	22,684			22,684	(22,684)				100%
	2004	23,062			23,062	(23,062)				100%
CPS All Employee Plan [1]	2002	660	8	(14)	654	(753)	(99)	99		115%
	2003	4,921			4,921	(4,921)				100%
	2004	7,651			7,651	(7,651)				100%
TMRS-SAWS [2]	2001	1,044			1,044	(1,044)				100%
	2002	1,772			1,772	(1,772)				100%
	2003	1,905			1,905	(1,905)				100%
PMLIC-SAWS [3]	2001	2,969			2,969	(2,969)				100%
	2002	2,857			2,857	(2,857)				100%
	2003	3,324			3,324	(3,324)				100%

1 Fiscal year ended January 31, 2004
2 Plan year ended December 31, 2003
3 Plan year ended December 31, 2003

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(amounts are expressed in thousands)

8. PENSION AND RETIREMENT PLANS (Continued)

F. Significant TMRS Actuarial Assumptions and Methods

Significant assumptions used in the actuarial valuation by the Texas Municipal Retirement System's (TMRS) actuary are provided in the table below for both the City and SAWS:

TMRS Actuarial Assumptions and Methods	
Investment Return-City	7%
Investment Return-SAWS	8%
Inflation Rate	None
Projected Salary Increases	None
Post Retirement Benefit Increases	None
Actuarial Cost Method	Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	25 Years – Open Period
Asset Valuation Method	Amortized Cost

Location of Schedules of Funding Progress

The Schedule of Funding Progress is located in the "Required Supplementary Information" section of this report. The schedules are designed to provide information about each entity's progress in accumulating sufficient assets to pay benefits due.

9. POSTEMPLOYMENT RETIREMENT BENEFITS

A. Primary Government (City)

In addition to the pension benefits discussed in Note 8, the City provides all their retired employees with certain health benefits under two postemployment benefit programs. The first program is a health insurance plan, which provides benefits for all non-uniformed City retirees and for all, pre-October 1, 1989, uniformed (fire and police) retirees. Currently, there are 6,067 active civilian employees who may become eligible in the future. Employees become eligible for the program when they reach eligibility for the TMRS Pension Plan, discussed in Note 8. At September 30, 2004, there were 1,512 retirees participating in the program which covers eligible expenses at 80% after a deductible of $250 (single)/$500 (family) for non-Medicare and $125/$250 for Medicare retirees. The cost of the program is reviewed annually, and actuarially determined costs of medical claims are funded jointly by the City and retirees on a pay-as-you-go basis shared on a targeted 67% City - 33% retiree cost allocation. Please note that the number of employees, retirees, and deductible amounts in this paragraph are not expressed in thousands. For retirees, total expenses for the year were $7,268. For the year ended September 30, 2004, total contributions were as follows:

City	$ 3,509
Employees	2,279
TOTAL	$ 5,788

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(amounts are expressed in thousands)

9. POSTEMPLOYMENT RETIREMENT BENEFITS (Continued)

A. Primary Government (City) (Continued)

The second postemployment benefit program of the City provides retirement health care benefits for eligible Fire and Police retirees under the Fire and Police Retiree Healthcare Fund ("Fund"). The Fund was originally established as a fund of the City pursuant to the respective Fire and Police collective bargaining agreements to provide postemployment health benefits for San Antonio Fire Fighters and Police Officers who retired on or after October 1, 1989. Effective October 1, 1997, the Fund was created as a separate and distinct statutory trust. The Fund is governed by a nine member Board of Trustees comprised of the Mayor, two City Council members, two active police officers, two active fire fighters, a retiree representative of the Fire Department, and a retiree representative of the Police Department. The Board of Trustees is responsible for the investment of the assets of the Fund. Contribution and benefit levels are determined by the respective collective bargaining agreements with the Fire and Police Associations.

The benefits of this plan are financed on a prefunded basis. The City currently makes contributions on behalf of 3,417 active Fire Fighters and Police Officers who may be eligible for benefits under this plan in the future. The benefits of the plan are not available until the employee has completed twenty years of service and the plan is currently providing benefits to 1,086 eligible retirees. The Program reimburses 80% of the amount of eligible claims for standard medical costs and 100% for hospitalization costs incurred by the retiree and their eligible dependents for Prefund II retirees. Please note the number of firefighters, police officers, and retirees in this section are not expressed in thousands. For the year ended September 30, 2004, total expenses for retired employees was $10,223. Contribution levels from the current collective bargaining agreements between the City and the Fire and Police Associations, respectively, and total contributions to the Fund are summarized in the following tables. Additionally, for FY 2004, the City did not reduce its contribution to the Fund under the Fire Agreement to 8.51% of base pay plus longevity but rather maintained its contribution at 8.71 % of base plus longevity.

Fire Agreement Contribution Levels		
Effective Date	City % of Base Pay Plus Longevity	Firefighter Per Month
June 1, 2002	8.92%	$40
October 1, 2002	8.71%	$50
October 1, 2003	8.51%	$60
October 1, 2004	8.33%	$70

Police Agreement Contribution Levels		
Effective Date	City % of Base Pay Plus Longevity	Police Officer Per Month
November 1, 2003	9.4%+$20/member monthly	$40
April 1, 2004	9.4%+$20/member monthly	$50
October 1, 2004	9.4%+$20/member monthly	$60
April 1, 2005	9.4%+$20/member monthly	$70

Total Contributions to the Fund		
City	$	16,563
Employees and Retiree Dependent Premiums		2,502
Total Contributions	$	19,065

(amounts are expressed in thousands)

9. POSTEMPLOYMENT RETIREMENT BENEFITS (Continued)

A. Primary Government (City) (Continued)

Historically, actuarial valuations have been performed periodically to determine the actuarial position of the Fund and whether the existing financing of the Fund can be reasonably expected to be adequate over a long period of time. Actuarial valuations over the past several years have indicated that contribution levels are not sufficient to amortize the unfunded liability. At the request of the Board of Trustees, the Fund's consulting actuaries performed an actuarial valuation dated February 20, 2004, as of October 1, 2003. The results of the actuarial valuation were that, in the opinion of the actuary, the Fund will have a long-term inadequate financing arrangement if present health benefits are left unchanged and if the monthly contributions remain at the amounts of $20 per month per active participant for police employees and $70 per month for active fire fighters after September 30, 2004. The actuary has also recommended that the contribution be increased to 21.41% of covered payroll in addition to the continuation of the specified monthly contributions. The City also had an actuarial valuation of the Fund conducted with a valuation date of April 1, 2003. This valuation also indicated that current contribution rates were not sufficient to the fund the benefits and retire the unfunded actuarial accrued liability.

While the results of the studies reflect significant changes would be required in contribution levels if benefits remain unchanged, the actuarial reports also state that the Fund does not have a short term financing problem. As of September 30, 2004, net assets available for postemployment benefits were $127,603 while benefits payments for the fiscal year ended September 30, 2004, were $10,223. As noted above, contribution and benefit levels are established pursuant to the collective bargaining agreements. The current agreement with the Fire Association will expire September 30, 2005, and has an evergreen clause through September 30, 2015. This agreement was negotiated prior to the issuance of the actuarial valuation indicating that contribution levels could not sufficiently amortize the unfunded liability, however, the agreement does contain a limited re-opener related to contributions to the Fund. The City is in discussions with the Fire Association regarding the limited re-opener under the current agreement.

The City approved an agreement in November of 2003 with the Police Association that will expire on September 30, 2006, and has an evergreen clause through September 30, 2016. This agreement with the Police Association increases both contributions by the City and active police officers over the term of the agreement. The agreement makes certain changes in benefits such as expanding the list of preventive services and for in-network and out-of-network pharmacy benefits with increased co-payments for drugs purchased at out-of-network pharmacies, which also became effective simultaneously under the Fire Contract. To coincide with the expiration of the City's current agreement with the Fire Association in September of 2005, the agreement with the Police Association also includes a re-opener on the benefits article in fiscal year 2005 which will allow the City to simultaneously work with both the Police and Fire Associations to continue to develop a comprehensive long-term solution for the Fund. The plan is based on a dual-track strategy of restructuring and redesigning the health benefits program and increasing City and employee contributions. Negotiations with both the Fire and Police Associations regarding health benefits issues are anticipated to begin in the summer of 2005.

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(amounts are expressed in thousands)

9. POSTEMPLOYMENT RETIREMENT BENEFITS (Continued)

B. City Public Service (CPS)

CPS provides certain health care and life insurance benefits for retired employees. Most former CPS employees are eligible for these benefits upon retirement from CPS. Plan assets are held as part of CPS' Group Health and Life Insurance Plans and funding is from both participant and employer contributions determined by annual actuarial and in-house calculations. Retired employees contribute to the health plan in varying amounts depending upon an equity formula that considers age and years of service. The Plans may be amended by CPS. The annual cost of retiree health care and life insurance benefits funded by CPS is recognized as an expense of CPS as employer contributions are made to the programs.

These costs approximated $4,400 for 2004. CPS reimbursed certain retirees and their spouses enrolled in Medicare Part B a percentage of the monthly premium, which totaled $256 for fiscal year 2004.

Retired employees and covered dependents contributed $1,900 for their health care and life insurance benefits in fiscal year 2004. There were approximately 2,261 retirees and covered dependents eligible for health care and life insurance benefits. Please note the number of retirees is not stated in thousands.

In view of the potential economic significance of these benefits, CPS has reviewed the present value of the postemployment benefit obligations for current retirees. The January 1, 2003, valuations are $74,400 for health and $19,800 for life insurance benefits. The actuarial analysis of the present value of postemployment benefit obligations for other participants fully eligible for benefits are estimated to be $45,900 for health, $5,600 for life insurance, and $3,000 for disability benefits. CPS began partial accrual and funding of projected future benefits in 1992. Funding totaled $4,300 in 2004. For the health care plan, the actuarial cost method used is the Projected Unit Credit Actuarial Cost Method. For the life insurance and disability plans, CPS uses a present value method to determine the cost of benefits.

Significant actuarial assumptions used in the calculations for the January 1, 2003, actuarial valuations include (a) a rate of return on the investment of present and future assets of 8.5% per year for the health, life, and disability plans, (b) projected salary increases for the plans ranging from 4.5% to 12.0% depending on age for base and other salaries, and (c) medical cost increases projected at 10.0% for 2003 decreasing to 6.0% in 2011 and thereafter.

C. San Antonio Water System (SAWS)

SAWS provides certain health care and life insurance benefits for retired employees. Substantially all full-time employees who retire from SAWS may become eligible for those benefits. On December 31, 2003, there were 442 retirees with life insurance and 283 retirees with medical coverage. Please note the numbers of retirees are not stated in thousands.

SAWS provides medical and life insurance for retirees and recognizes the cost of providing these benefits on a pay-as-you-go basis by expensing the annual insurance. Premiums for medical insurance and life insurance amounted to $3,956 and $70, respectively for January 1, 2003, through December 31, 2003. Those and similar benefits for active employees are provided through insurance companies.

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10. CPS SOUTH TEXAS PROJECT (STP)

Joint Operations

CPS is one of four participants in the STP, which consists of two 1,250-megawatt nuclear generating units in Matagorda County, Texas. The other participants in the project are Texas Genco, L.P., formerly known as Houston Lighting & Power and Reliant Energy, American Electric Power - Central Power and Light Company, and the City of Austin. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2. CPS' 28% ownership in the STP represents 700 megawatts of plant capacity. At January 31, 2004, CPS' investment in the STP utility plant was approximately $1,700,000, net of accumulated depreciation. Effective November 17, 1997, the Participation Agreement among the owners of STP was amended and restated and the STP Nuclear Operating Company (STP OPCO), a Texas non-profit non-member corporation created by the participants, assumed responsibility as the licensed operator of STP. The participants share costs in proportion to ownership interests, including all liabilities and expenses of STP OPCO.

Nuclear Insurance

The Price-Anderson Act is a comprehensive statutory arrangement for providing limitations on liability and governmental indemnities with respect to nuclear accidents or events. The maximum amount that each licensee may be assessed following a nuclear incident at any insured facility is $100,600, subject to adjustment for inflation, for the number of operating nuclear units and for each licensed reactor, payable at $10,000 per year per reactor for each nuclear incident. CPS and each of the other participants of STP are subject to such assessments, which will be borne on the basis of their respective ownership interests in STP. For purposes of these assessments, STP has two licensed reactors. The participants have purchased the maximum limits of nuclear liability insurance, as required by law, and have executed indemnification agreements with the Nuclear Regulatory Commission (NRC), in accordance with the financial protection requirements of the Price-Anderson Act.

A Master Worker Nuclear Liability policy, with a maximum limit of $600,000 for the nuclear industry as a whole, provides protection from nuclear-related claims.

NRC regulations require licensees of nuclear power plants to obtain on-site property damage insurance in a minimum amount of $1,060,000. NRC regulations also require that the proceeds from this insurance be used first to ensure that the licensed reactor is in a safe and stable condition so as to prevent any significant risk to the public health or safety, and then to complete any decontamination operations that may be ordered by the NRC. Any funds remaining would then be available for covering direct losses to property.

The owners of STP currently maintain $2,750,000 of nuclear property insurance, which is above the legally required amount of $1,060,000, but is less than the total amount available for such losses. The $2,750,000 of nuclear property insurance consists of $500,000 in primary property damage insurance and $2,025,000 of excess property damage insurance, both subject to a retrospective assessment being paid by all members of Nuclear Electric Insurance Limited (NEIL). In the event that property losses as a result of an accident at the nuclear plant of any utility insured by NEIL exceed the accumulated funds available to NEIL, a retrospective assessment could occur. The maximum aggregate assessment under current policies for both primary and excess property damage insurance is $25,500 during any one-policy year.

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10. CPS SOUTH TEXAS PROJECT (STP) (Continued)

Nuclear Decommissioning

CPS, together with the other owners of the STP, files with the NRC a certificate of financial assurance for the decommissioning of the nuclear power plant. The certificate assures that CPS will meet the minimum decommissioning funding requirements mandated by the NRC. The STP owners agreed in the financial assurance plan that their estimate of decommissioning costs would be reviewed and updated periodically. In 1995, the owners conducted a review of decommissioning costs. The results showed that CPS' share of decommissioning costs at approximately $270,000 in 1994 dollars. In 1999, the owners conducted an additional review of decommissioning, and results estimated CPS' share of decommissioning costs are now approximately $311,000 in 1998 dollars.

In 1991, CPS started accumulating the decommissioning funds in an external trust, in accordance with the NRC's regulations. The Decommissioning Trust assets and related liabilities are included in CPS' financial statements as a component unit. At January 31, 2004, CPS has accumulated approximately $211,100 of funds in the external trust. Based on the annual calculation of financial assurance required by the NRC, CPS' trust balance exceeded the calculated financial assurance amounts of $70,400 at December 31, 2003.

Based upon the 1998 and 1994 decommissioning cost studies, the annual level funding into the trust of $15,900 for 2004 was expensed by CPS.

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11. COMMITMENTS AND CONTINGENCIES

A. Primary Government (City)

Grants

The City has received significant financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements, and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, liabilities resulting from disallowed claims, if any, will not have a materially adverse effect on the City's financial position at September 30, 2004. Grants awarded by federal, state, and other governmental agencies but not yet earned nor received in cash as of September 30, 2004, were $118,544.

Capital Improvement Program

The City will be undertaking various capital improvements to its airport system during fiscal year 2005. The estimated cost of these improvements is $163,015. Approximately $25,583 of the total will be funded by federal grants.

Litigation

The City is involved in various lawsuits related to alleged personal and property damages, wrongful death, breach of contract, various claims from contractors for additional amounts under construction contracts, property tax assessments, environmental matters, class action and promotional practices, and discrimination cases. The Office of the City Attorney estimates the probable liability for these suits, including those mentioned below, will approximate $8,995, which is included as a component of the reserve for claims liability in the amount of $17,271. The estimated liability, including an estimate of incurred but not reported claims, is recorded in the Insurance Reserve Fund. The City makes significant estimates in determining the amounts of unsettled claims under its self-insurance program and believes that the self-insurance reserves recorded in the Self-Insurance Funds are adequate to cover losses for which the City may be liable. It is not determinable whether additional claims or revisions to estimates required for settlement on existing claims could have a material effect on the government-wide financial statements.

Charles and Tracy Pollock, Individually and as next friend of Sarah Jane Pollock, a minor child v. City of San Antonio. This is a nuisance case alleging that benzene gas emitted from the West Avenue Landfill caused chromosomal damage to a fetus during the period of gestation, resulting in Plaintiff's contracting acute lymphoblastic leukemia. Although the jury at trial entered against a judgment of more than $23,000 against the City, the trial court immediately reduced this by $6,000. On appeal, the Fourth Court subsequently sided with the City and reduced the judgment further by eliminating $10,000 in exemplary damages. The remaining issue is whether personal injuries are recoverable under the Plaintiff's theory of nuisance. The City believes they are not and that even if they are recoverable, damages are capped at $250 under the Texas Tort Claims Act. The City is appealing to the Texas Supreme Court.

Matthew Jackson et. al. v. City of San Antonio. This is a Fair Labor Standards Act ("FLSA") lawsuit with 175 named plaintiffs who claim that they were required to report for duty 15 minutes prior to their shift and that they were not compensated for the time in violation of the FLSA. There are several other allegations based on the FLSA, as well. The lawsuit has been filed on behalf of all of the police officers similarly situated to the 175 plaintiffs. The Plaintiffs have a motion pending for class certification that could increase the size of the Plaintiff class to include all officers of the San Antonio Police Department, of which there are more than 2,000. Thus, the potential exists for more officers to join the lawsuit. The City expects to win the lawsuit, but the potential liability, if the case were lost, could be an amount well over $1,000.

11. COMMITMENTS AND CONTINGENCIES (Continued)

A. Primary Government (City) (Continued)

Arbitrage

The City has issued certain tax-exempt obligations that are subject to Internal Revenue Service (IRS) arbitrage regulations. Non-compliance with these regulations, which pertain to the utilization and investment of proceeds, can result in penalties including the loss of the tax-exempt status of the applicable obligations retroactive to the date of original issuance. In addition, the IRS requires that interest income earned on proceeds in excess of the arbitrage rate on applicable obligations be rebated to the federal government. The City monitors its bond proceeds in relation to arbitrage regulations, and "arbitrage rebate" is estimated and recorded in the government-wide and proprietary financial statements when susceptible to accrual and in the governmental fund type when matured.

Leases

The City leases City-owned property to others consisting of buildings, real property, and parking spaces. Costs of specific leased components are not readily determinable. Total rental revenue on operating leases for fiscal year ended September 30, 2004, was $21,564. As of September 30, 2004, the leases provide for the following future minimum rentals:

Leases Receivable

	Governmental Activities	Aviation	Parking	Total
Fiscal year ending September 30:				
2005	$ 1,854	$ 14,479	$ 102	$ 16,435
2006	1,641	13,755	60	15,456
2007	1,009	2,360		3,369
2008	844	2,052		2,896
2009	608	1,481		2,089
2010-2014	2,530	5,286		7,816
2015-2019	2,673	3,095		5,768
2020-2024	975	425		1,400
2025-2029	750	222		972
2030-2034	675			675
2035-2039	500			500
2040-2042	267			267
Future Minimum Lease Rentals	$ 14,326	$ 43,155	$ 162	$ 57,643

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11. COMMITMENTS AND CONTINGENCIES (Continued)

A. Primary Government (City) (Continued)

Landfill Postclosure Care Costs

In October 1993, the City Council approved closure of the Nelson Gardens Landfill, which immediately stopped accepting solid waste. Subsequent to landfill closure, Federal and State laws required the City to incur certain postclosure care costs over a period of thirty years. As of September 30, 1994, the City estimated these costs for postclosure of the Nelson Gardens Landfill at $3,800. The estimate was based on estimated costs for installation of a leachate and groundwater collection system, installation of a methane recovery system, geotechnical and environmental engineering services, and monitoring and maintaining the facility for a thirty-year period. In accordance with GASB Statement No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs", the estimated postclosure cost of $3,800 for the Nelson Gardens Landfill was recorded as a liability and expensed in the Environmental Services Fund in fiscal year 1994. This cost is an estimate and is subject to changes resulting from inflation/deflation, advances in technology, or changes in applicable laws or regulations.

Each fiscal year, the City performs an annual re-evaluation of the postclosure care costs associated with the Nelson Gardens Landfill. The annual re-evaluation conducted for the fiscal year ended September 30, 2004, resulted in an estimated postclosure care liability for the Nelson Gardens Landfill of $1,051. This represents a decrease of $10 from the prior fiscal year for expenditures incurred for geotechnical and environmental engineering services.

TCEQ Financial Assurance

The City is required under the provision of the Texas Administrative Code to provide financial assurance to the Texas Commission on Environmental Quality (TCEQ), formerly known as the Texas Natural Resource Conservation Commission (TNRCC), related to the closure of municipal solid waste operations including, but not limited to, storage, collection, handling, transportation, processing, and disposal of municipal solid waste. As such, financial assurance is required to ensure that funds are available, when needed, to meet costs associated with the closure of the City's North East Transfer Station. Additionally, financial assurance is required to demonstrate financial responsibility for underground storage petroleum facilities. As of September 30, 2001, the permit for the North East Transfer Station has been transferred from the City and the new permitee has provided adequate financial assurance for this facility. Based on the number of underground petroleum storage tanks, the City is required to provide $1,000 of financial assurance related to the underground storage facilities.

Brooks City-Base – Electric and Gas Utilities

The Brooks City-Base Project is a collaborative effort between the U.S. Air Force (the "Air Force") and the City designed to retain the Air Force missions and jobs at Brooks Air Force Base, improve mission effectiveness, assist in reducing operating costs, and promote and enhance economic development at Brooks. On July 22, 2002, the land and improvements were transferred to the Brooks Development Authority (BDA) for the purpose of creating the Brooks Technology & Business Park, a facility that will foster the development of key targeted industries. The Air Force is currently the Park's anchor tenant and is leasing back facilities to perform its missions.

As part of the conveyance, the electric and gas utilities were transferred to City Public Service (CPS), the City's utility. The electric and gas utility systems' infrastructure at Brooks are deficient and require extensive upgrades and improvements. Pursuant to the transfer, the Air Force, BDA, and CPS have committed to make certain improvements and upgrades to the electric and gas utility over a 20-year period. Funding for these improvements include $3,400 from the City and $6,300 from BDA and CPS each, respectively for a total of $16,000.

(amounts are expressed in thousands)

11. COMMITMENTS AND CONTINGENCIES (Continued)

A. Primary Government (City) (Continued)

Brooks City-Base – Electric and Gas Utilities (Continued)

With respect to BDA's obligation of $6,300, the City has agreed, under certain circumstances and if necessary, to assist BDA in funding its obligation. The City has agreed to contribute to BDA on an annual basis an amount equivalent to the incremental increase in the City's payment from CPS derived from Brooks. The City, as the owner of CPS, receives 14% of CPS' gross revenues and this amount represents additional resources available to the City as a result of its increased payment from CPS derived at Brooks. Over the 20-year period, the City's annual payments will not exceed $3,400. In the event BDA has exhausted all of its available resources and has been unable to fulfill its obligation of $6,300 by the end of the 20-year term, the City has agreed in good faith to utilize all of its funding options to enable BDA to satisfy its obligation.

Alamodome Soil Remediation

The City took an aggressive approach to dealing with environmental issues resulting from the construction of the Alamodome, a multi-purpose domed facility. It worked in conjunction with the Texas Commission on Environmental Quality (TCEQ) on the development and implementation of a remediation plan that addressed both on and off-site locations that may have contained contaminated soil. As of September 30, 2004, the City had expended approximately $13,460 related to Alamodome soil remediation efforts, inclusive of the supplemental environmental projects. In January 1996, TCEQ issued its Executive Director's Preliminary Report assessing a penalty against the City and VIA Metropolitan Transit (VIA) along with certain technical recommendations for alleged violations in the handling of contaminated soils at the Alamodome site. On February 12, 1997, the City and TCEQ entered into an Agreed Order relating to enforcement actions taken by the Commission against the City and VIA which provided for a reduced penalty amount because of positive actions taken by the City to initiate corrective actions in advance of the Agreed Order.

Under the Agreed Order, the Commission would also defer the remaining portion of the reduced fine upon successful completion, by the City, of certain supplemental environmental projects in the total amount of $628. The City, under separate agreement with VIA, would assume responsibility for the remediation of the remaining sites, with VIA contributing $350 towards these efforts.

The City completed the Supplemental Environmental Projects as identified in the Agreed Order and has received concurrence from the TCEQ that these projects were successfully completed. Additionally, the ten sites that required remedial activity under the Agreed Order were completed. The TCEQ has provided closure letters for all of these sites. Remediation was completed in fiscal year 2004 for the final site.

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11. COMMITMENTS AND CONTINGENCIES (Continued)

B. City Public Service (CPS)

Other

Purchase and construction commitments amounted to approximately $1,500,000 at January 31, 2004. This amount includes approximately $40,300 that is expected to be paid for natural gas purchases to be made under various contracts currently in effect through June 2007; the actual amount to be paid will depend upon CPS' actual requirements during the contract period and the price of gas. Also included is $79,500 for coal purchases through December 2006, $246,200 for coal transportation through December 2014, and $3,000 for treated cooling water through December 2005, based upon the minimum firm commitment under these contracts.

CPS has also committed to purchase $199,500 in wind power; $22,500 for generation plant maintenance services, and $50,000 for distribution system construction and maintenance.

Additional purchase commitments at January 31, 2004, which are related to STP, include approximately $673,300 for raw uranium, associated fabrication, and conversion services. This amount represents services that will be needed for refueling through the year 2028.

The PUC promulgated new rules in 1996 designed to comply with legislative changes affecting the utility industry. The Transmission Pricing and Access Rule (Rule) mandates that electric utilities charge customers for wholesale open transmission access according to a formula based on the amount of load served by each utility. CPS' cost for calendar year 2003 was approximately $16,100. The estimated cost for calendar year 2004 is approximately $13,000.

Joint Operations Agreement

A 1997 Joint Operations Agreement (JOA) resulted from the litigation settlement with Texas Genco, L.P., formerly known as Reliant Energy, Inc., and Houston Lighting & Power, over its management of STP during the construction and early operating periods. The JOA is an arrangement to jointly dispatch CPS' and Texas Genco, L.P.'s generating plants to take advantage of the most efficient plants and favorable fuel prices of each utility. Until June 2002, CPS received, in monthly cash payments, 90% of the savings realized from the jointly operated systems. As of June 2002, when Texas Genco, L.P. met the JOA $200,000 cumulative savings obligation, monthly cash payments were reduced to 50% of the savings realized from the jointly operated systems. As of January 31, 2004, CPS' total cumulative payments from savings realized was $235,800.

Litigation

Additionally, in the normal course of business, CPS is involved in other legal proceedings related to alleged personal and property damages, breach of contract, condemnation appeals, and discrimination cases. Also, CPS power generation activities and other utility operations are subject to extensive state and federal environmental regulation. In the opinion of management of CPS, the outcome of such proceedings will not have a material adverse effect on the financial position or results of operations of CPS.

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11. COMMITMENTS AND CONTINGENCIES (Continued)

C. San Antonio Water System (SAWS)

Other

SAWS is committed under various contracts for completion of construction or acquisition of utility plants totaling approximately $146,100 as of December 31, 2003. Funding of this amount will come from available revenues of SAWS, contributions from developers, and restricted assets.

Litigation

SAWS is the subject of various claims and litigation that have risen in the ordinary course of its operations. Management, in consultation with legal counsel, is of the opinion that SAWS' liabilities in these cases, if decided adversely to SAWS, will not be material.

12. RISK FINANCING

A. Primary Government (City)

Property and Casualty Liability

At September 30, 2004, the City has excess insurance coverage through State National Insurance Company for liability. The blanket policy provides general and auto liability along with police professional errors and omissions and EMS Medical Malpractice, and Civil Rights and Employee Benefits Liability Coverage. Allianz Insurance Company provides property coverage on the City's building and contents inventory. The City utilizes a third party administrator for the handling of administration, investigation, and adjustment of liability claims.

Obligations for claims under these programs are accrued in the City's Self-Insurance Reserve Internal Service Fund based on the City's estimates of the aggregate liability for claims made and claims incurred but not reported, and Departments are assessed premiums to cover expenditures. There were no significant reductions in insurance coverage. Claims settlements did not exceed insurance coverage for each of the past three years.

Employee Health Benefits

The City provides its current employees with a comprehensive employee benefit program including coverage for medical, dental and life insurance, vision, dependent care reimbursement accounts and additional life insurance for its employees and their dependents. The City's self-insured medical programs are provided to all City employees. Obligations for benefits are accrued in the City's Self-Insurance Employee Benefits Insurance Internal Service Fund based upon the City's estimates of the aggregate liability for unpaid benefits.

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12. RISK FINANCING (Continued)

A. Primary Government (City) (Continued)

Workers' Compensation

The City self-insures for Workers' Compensation. The City is a member of the Texas Municipal League (TML) Workers' Compensation Joint Insurance Fund, an unincorporated association of political subdivisions of the State of Texas. The TML Workers' Compensation Joint Insurance Fund is not intended to operate as an insurance company, but rather is intended to be a contracting mechanism, which the City as a member utilizes to administer self-insurance workers' compensation benefits to its employees for claims that occurred prior to September 30, 1986. The City also utilizes third party administrators for the handling of administration, investigation, and adjustment of workers' compensation claims that occurred after October 1, 1986. All loss contingencies, including claims incurred but not reported, if any, are recorded in the City's Self-Insurance Workers' Compensation Internal Service Fund and City departments are assessed premiums to cover expenditures. As of September 30, 2004, the City has excess workers' compensation coverage through the State National Insurance Company. Claims settlements did not exceed insurance coverage for each of the past three years.

Unemployment Compensation Program

The Unemployment Compensation Program of the Self-Insurance Internal Service Fund provides a central account for payment of unemployment compensation claims. As of the fiscal year end, claims were being administered internally by the City and are paid to the Texas Workforce Commission on a reimbursement basis. All costs incurred are recorded on a claim paid basis.

Extended Sick Leave Program

The Extended Sick Leave Program of the Self-Insurance Internal Service Fund is used to pay benefits associated with the City's employee long-term disability plan. Benefits are administered by the City. Actual costs are incurred when extended leave is taken.

Employee Wellness Program

The Self-Insurance Employee Wellness Program Internal Service Fund is used to account for revenues and operating expenses of the City Occupational Health Clinic operated by the San Antonio Metropolitan Health District. The clinic's operation is supported by transfers from the Workers' Compensation Fund and the Employee Health Benefits Fund as expenses are incurred. In fiscal year 1999, the Employee Assistance Program was established to offer City employees short-term mental health, marital, and financial counseling, as well as substance abuse intake and assessment. The Program was funded by a transfer from the Workers' Compensation Fund.

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12. RISK FINANCING (Continued)

A. Primary Government (City) (Continued)

Claims Liability

The liability for the Employees Benefits Program is based on the estimated aggregate amount outstanding at the statement of net assets date for unpaid benefits. Liabilities for the Insurance Reserve and Workers' Compensation Programs are reported when it is probable that a loss has occurred as of the statement of net assets date and the amount of the loss can be reasonably estimated. These liabilities include allocable loss adjustment expenses, specific incremental claim adjustment expenses such as the cost of outside legal counsel, and a provision for claims that have been incurred but not reported (IBNR). Unallocated claim adjustment expenses have not been included in the calculation of the outstanding claims liability as management of the City feel it would not be practical or cost beneficial. In addition, based on the difficulty in determining a basis for estimating potential recoveries and the immateriality of prior amounts, no provision for subrogation or salvage has been included in the calculation of the claims liability. The claims liability reported in the accompanying financial statements for the Insurance Reserve Program is based on a 3% discounted rate.

The following is a summary of changes in claims liability for the City's Insurance Reserve, Employee Benefits, and Workers' Compensation Programs for the year ended September 30, 2004.

Schedule of Changes In Claims Liability

Fund	Liability Balance October 1,	Change in Estimates	Claims & Adjustments	Claims Payments	Liability Balance September 30, [1]
Insurance Reserve					
Fiscal Year 2003	$ 16,179	$	$ 4,836	$ (4,836)	$ 16,179
Fiscal Year 2004	16,179	1,092	3,370	(3,370)	17,271
Employee Benefits					
Fiscal Year 2003	$ 5,366	$ 3,182	$ 36,997	$ (36,997)	$ 8,548
Fiscal Year 2004	8,548		48,266	(48,266)	8,548
Workers' Compensation[1]					
Fiscal Year 2003	$ 23,205	$	$ 10,035	$ (10,035)	$ 23,205
Fiscal Year 2004	23,205		9,635	(9,635)	23,205

[1]The Workers' Compensation Liability Balance of $23,205 is comprised of $20,879 recorded in the Workers' Compensation Fund and the remaining liability of $2,326 is recorded in Proprietary Funds.

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(amounts are expressed in thousands)

12. RISK FINANCING (Continued)

B. City Public Service (CPS)

CPS is exposed to various risks of loss including those related to torts, theft or destruction of assets, errors and omissions, and natural disasters. CPS purchases commercial liability and property insurance coverages to provide protection in event of large/catastrophic claims. CPS performs actuarial studies periodically to determine its insurance retentions. An actuarial study was last performed in 2004.

In addition, CPS is exposed to risks of loss due to death of, and injuries to, or illness of, its employees. CPS makes payments to external trusts to cover the claims under the related plans. At January 31, 2004, CPS accumulated approximately $152,800 in these external trusts. The trust accounts and related claims liabilities are included in CPS' financial statements. CPS has recorded $27,700 of expense related to these plans for the year ended January 31, 2004.

Based upon the guidance of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, the following information is provided regarding the changes in the insurance reserves for property, and employee and public liability claims for the years ended January 31:

City Public Service
Schedule of Changes In Claims Liability

Fund	Liability Balance February 1,	Claims & Adjustments	Claims Payments	Liability Balance January 31,
Property Insurance				
Fiscal Year 2003	$ 8,624	$ (3,019)	$ (52)	$ 5,553
Fiscal Year 2004	5,553	377	(95)	5,835
Employee & Public Liability Claims				
Fiscal Year 2003	$ 5,008	$ 1,968	$ (110)	$ 6,866
Fiscal Year 2004	6,866	1,371	(1,000)	7,237
Employee Health & Welfare Claims				
Fiscal Year 2003	$ 3,641	$ 29,425	$ (28,894)	$ 4,172
Fiscal Year 2004	4,172	35,939	(35,415)	4,696

The employee health and welfare plan assets are segregated from CPS's assets. They are separately managed by a committee whose members are appointed by the CPS General Manager and CEO. These plans have separate financial statements for calendar year 2003. These separately audited financial statements are available upon request from CPS.

(amounts are expressed in thousands)

12. RISK FINANCING (Continued)

C. San Antonio Water System (SAWS)

Risk Management

SAWS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

SAWS is self administered and self-insured for the first $500 of each worker's compensation and $250 for general liability, automobile liability, public official's liability and $100 for pollution legal liability claim whereby any claim exceeding the self-insured retention limit would be covered through SAWS' comprehensive commercial insurance program. For the year ended December 31, 2003, there were no reductions in insurance coverage from the previous year and there were no claims that exceeded the self-insured retention limit. Settled claims have not exceeded the insurance coverage in any of the past three fiscal years.

SAWS had recorded a liability in the amount of $2,317 as of December 31, 2003, which is reported as a current liability. The claims liability, including incurred but not reported claims, is based on the estimated ultimate cost of settling the claims. The claims liability includes medical and rehabilitation costs, which are considered incremental claim adjustment expenses. Changes in the liability amount for the last two fiscal years were:

San Antonio Water System
Schedule of Changes In Claims Liability

Year Ended	Balance at Beginning of Fiscal Year Liability	Claims & Adustments	Claims Payments	Balance at End of Fiscal Year Liability
Dec. 31, 2002	$ 1,729	$ 1,058	$ (1,603)	$ 1,184
Dec. 31, 2003	$ 1,184	$ 3,029	$ (1,896)	$ 2,317

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(amounts are expressed in thousands)

13. INTERFUND TRANSFERS

The following is a summary of interfund transfers for the City for the year ended September 30, 2004:

Summary Table of Interfund Transfers for the Year Ended September 30, 2004

	Transfers From Other Funds	Transfers To Other Funds
General Fund:		
Airport System Fund	$ 153	$ 0
Parking System	717	411
Internal Service Funds	2,701	3,633
Nonmajor Governmental Funds	10,374	70,897
Nonmajor Enterprise Funds	1,403	
Total General Fund	15,348	74,941
Debt Service Funds:		
Nonmajor Governmental Funds	22,638	
Total Debt Service Funds	22,638	0
Airport System Fund:		
General Fund		153
Internal Service Funds		206
Nonmajor Governmental Funds	761	118
Total Airport System Fund	761	477
Parking Facilities Fund:		
General Fund	411	717
Internal Service Funds	10	701
Nonmajor Governmental Funds		105
Total Parking Facilities Fund	421	1,523
Internal Service Funds:		
General Fund	3,633	2,701
Airport System	206	
Parking System	701	10
Internal Service Funds	1,443	1,443
Nonmajor Governmental Funds	272	314
Nonmajor Enterprise Funds	257	35
Total Internal Service Funds	6,512	4,503
Nonmajor Governmental Funds:		
General Fund	70,897	10,374
Debt Service		22,638
Airport System	118	761
Parking System	105	
Internal Service Funds	314	272
Nonmajor Governmental Funds	72,137	72,137
Total Nonmajor Governmental Funds	143,571	106,182
Nonmajor Enterprise Funds:		
General Fund		1,403
Internal Service Funds	35	257
Total Nonmajor Enterprise Funds	35	1,660
Total	$ 189,286	$ 189,286

(amounts are expressed in thousands)

13. INTERFUND TRANSFERS (Continued)

Transfers are made to use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds. These transfers are in the form of operating subsidies, grant matches, and funding for capital projects. In addition, transfers are routinely made from other funds to fund debt service payments and for other restricted purposes. All transfers are in accordance with budgetary authorizations.

Other significant transfers by the General Fund include $615 set aside for the purchase of additional ladder trucks from fiscal year 2006 through fiscal year 2009. This is the third year that funds have been set aside for that purpose as the Master Plan recommended in fiscal year 2001 that $615 in funds be set aside each year through fiscal year 2005.

The Enterprise Resource Management Fund was established in fiscal year 2001 to record all operating revenues and expenditures associated with the development and implementation of the new enterprise system. Funding is provided by transfers from the Improvement Projects Fund. This year's support totaled $1,132.

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14. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between fund balance-total governmental funds and net assets-governmental activities as reported in the Government-wide Statement of Net Assets.

One element of this reconciliation states, "Some of the City's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are not reported in the governmental funds". The detail of the $35,154 is as follows:

Revenues previously reported as deferred in the fund financial statements	$ 45,111
Receivable applicable to governmental activities, which are not available in the current period	565
Deferred revenues previously reported as income in the fund financial statements	(10,522)
Revenues collected after year end but are not available soon enough to pay for the current period's expenditures and therefore are not recognized in governmental funds	$ 35,154

Another element of this reconciliation states, "Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds". The detail for the decrease related to capital leases is as follows

Total capital leases reported on the Government-wide Statement of Net Assets	$ 7,126
Less: Short-term available portion reported in fund financial statements	(581)
Net adjustment to decrease fund balance-total governmental funds to arrive at new assets-governmental activities for capital leases	$ 6,545

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(amounts are expressed in thousands)

14. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Cont'd)

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and the Government-wide Statement of Activities

The governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances includes a reconciliation between net changes in fund balances-total governmental funds and changes in net assets of governmental activities as reported in the Government-wide Statement of Activities.

The details of the increase of bond costs are as follows:

Issuance costs expended per fund financial statements	$	2,061
Less: amounts expended attributable to current period		(6)
Total bonds costs	$	2,055

The details of the increase of bond premiums and deferred charges are as follows:

Amortization of bond premiums on long-term debt-Debt Service Fund, previously expensed in the fund financial statements	$	2,093
Amortization of bond premiums on long-term debt-General Obligation Bonds previously expensed in the fund financial statements		835
Less: premiums on bonds and certificates not previously recorded in the fund financial statements		(4,095)
Total amortization of bond premiums and deferred charges (net)	$	(1,167)

Another element of this reconciliation states, "Some expenses reported in the Statement of Activities are not reported as expenditures in governmental funds." The details of the ($1,564) are as follows:

Compensated Absences	$	(6,243)
Interest Expense		(760)
Principal Paid on Leases		5,590
Arbitrage Rebate Expense		(151)
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities.	$	(1,564)

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(amounts are expressed in thousands)

15. DEFICITS IN FUND BALANCES / NET ASSETS

Special Revenue Funds

As of September 30, 2004, deficit fund balance at year-end is reported in the Categorical Grant In-Aid, and Community Development Program in the amounts of $853 and $251, respectively. The deficit is attributable to projects for which the Community Development Program Fund Budget needs to be adjusted. Upon reprogramming of funds, the deficit fund balances will be fully funded. The deficit for Categorical Grant-In Aid is attributable to projects that were overspent and for which local funding will be required to clear this deficit.

The Golf Course Fund had a deficit fund balance of $624 as of September 30, 2004. The deficit is attributable to a decline in revenues in recent years due to increased competition by the private sector and extreme weather patterns. In addition, increased labor, fuel, and equipment maintenance costs have contributed to the deficit.

The Alamodome Fund had a deficit fund balance of $879 as of September 30, 2004. This deficit is attributed to events programmed but not realized, due in part to the downturn of certain entertainment industries and local venue competition. Additionally, individual spending per event was expected to increase due to an anticipated economic upswing.

Internal Service Funds

As of September 30, 2004, a deficit of $31,752 in net assets is reported in the Employee Benefits Program. To address specific issues related to the increasing costs of health benefits, the City will seek the services of an outside consultant in 2005 to perform a comprehensive review of the Employee Benefits Programs. Establishing health care medical management programs focused on providing managed care for employees having chronic, high risk ailments involving high costs such as back pain, high risk maternity, heart disease, and depression are some of the areas on which the consultant will be focusing. Programs such as these will be carefully studied as means of providing long term solutions to address rising health care costs and increasing fund balance deficits. In March of 2004, a combined Health and Benefits Request for Proposal (RFP) was released. The purpose of the combined plan was to maximize efficiency, ensure competitive medical pricing, to consolidate plan administration, and to improve provider discounts.

Within the Internal Service Funds, the Workers Compensation Program also reported deficit net assets of $6,590, at September 30, 2004. The City will fund the deficit through assessments charged to various City funds in future years.

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(amounts are expressed in thousands)

16. OTHER DISCLOSURES

A. Donor Restricted Endowment

The City of San Antonio has four permanent funds: the San Jose Burial Park Permanent Fund, the Carver Cultural Center Endowment Fund, the San Antonio Housing Trust Fund, and the William C. Morris Endowment Fund. The City is only allowed to spend interest proceeds generated from the principal amount for each of these funds. The net assets from these endowment funds are classified as restricted net assets and are reported in the government-wide financial statements. The principal is required to be retained in perpetuity while the interest is available to cover specific expenditures.

The San Jose Burial Park Permanent Fund generated $26 in interest to be expended for specified purposes. Chapter 713 of the Texas Health and Safety Code governs what expenditures the City may incur when spending the interest income. Per Chapter 713, the revenue can be spent for the maintenance and care of the graves, lots, and burial places, and to beautify the entire cemetery. The principal amount of this fund is increased each year by sales of lots from the San Jose Cemetery.

The Carver's Endowment Fund generated $3 in interest. These earnings can be used for the Carver Community Cultural Center's operating program, or reinvestment expenses (as detailed in the grant agreement). This fund is managed in accordance with the Uniform Management of Institutional Funds Act, which is codified as Section 163.001 in the Texas Property Code. The principal portion of the fund came from a one-time grant from the National Endowment for the Arts.

The San Antonio Housing Trust Fund generated $275 in interest. These earnings may be disbursed to projects with particular emphasis on housing programs as grants or secured loans. All distributions or disbursements of this trust shall be made for the primary purpose of providing additional and continuing housing opportunities for low and moderate income families. This trust shall at all times be governed, construed, regulated, and administered in all respects under the laws of the State of Texas.

The William C. Morris Endowment Fund generated $1 in interest. These earnings are used on an annual basis to enhance the City's Library's Educational Programming and Services for Children. Any net income or net appreciation of the funds not used shall be accumulated and added to the principal of the funds. The earnings of the funds will be expended in accordance with the spending policy of the Library's Board of Directors or Trustees.

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17. SUBSEQUENT EVENTS

A. Primary Government (City)

On December 2, 2004, the City issued $33,090,000 "City of San Antonio, Texas General Improvement Forward Refunding Bonds, Series 2006," (the "2006 Bonds"). The 2006 Bonds are anticipated to be delivered on or about May 9, 2006. The 2006 Bonds have maturities from 2009 to 2016, with interest rates ranging from 5.250% to 5.500%.

On March 24, 2005, the City issued $61,060,000 "City of San Antonio, Texas, Municipal Drainage Utility System Revenue Bonds, Series 2005" (the "Stormwater Bonds"). The Stormwater Bonds were sold to finance the costs of making drainage improvements, including acquisition, construction, and repair of structures, equipment, and facilities for the City's Municipal Drainage Utility System and are anticipated to be delivered on or about April 20, 2005. The Stormwater Bonds have maturities from 2006 to 2030, with interest rates ranging from 3.500% to 5.250%.

On March 31, 2005, the City issued $116,170,000 "City of San Antonio, Texas General Improvement and Refunding Bonds, Series 2005," (the "2005 Bonds") and $10,535,000 "City of San Antonio, Texas Combination Tax and Revenue Certificates of Obligation, Series 2005," (the "2005 Certificates"). The 2005 Bonds and the 2005 Certificates are anticipated to be delivered on or about April 27, 2005. The 2005 Bonds have maturities from 2010 to 2025, with interest rates ranging from 3.500% to 5.250%. The 2005 Certificates have maturities from 2012 to 2025, with interest rates ranging from 4.000% to 5.250%.

The 2005 Bonds were issued to provide funds (1) to finance the construction of general improvements to the City, including (a) streets and pedestrian improvements; (b) drainage improvements; (c) parks and recreation improvements; (d) library improvements; and (e) public health and safety improvements; (2) to refund certain outstanding tax-exempt obligations and to effectuate a present value savings; and (3) to pay the costs of issuance.

The 2005 Certificates will be used for the purpose of providing funds for the payment of contractual obligations to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) constructing public safety improvements, including renovating and improving existing fire stations, (2) constructing drainage improvements, sidewalk improvements, bridge improvements, street improvements and drainage incidental thereto, (3) constructing improvements and renovations to existing municipal facilities, including the Levi Strauss Building and the Witte Museum, (4) acquiring, constructing and renovating park facilities, (5) purchasing materials, supplies, machinery, land, and rights-of-way for authorized needs and purposes relating to public safety, drainage, street and public works purposes, and (6) the payment of professional services related to the construction and financing of the aforementioned projects.

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City of San Antonio
Texas

Required Supplementary Information Other Than MD&A

(Unaudited)

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City of San Antonio
Texas

Budgetary Comparison Schedule - General Fund

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	2004			
	BUDGETED AMOUNTS			VARIANCE WITH FINAL BUDGET POSITIVE
	ORIGINAL	FINAL	ACTUAL	(NEGATIVE)
Resources (inflows):				
Taxes	$ 332,745,965	$ 332,744,105	$ 343,707,952	$ 10,963,847
Licenses and Permits	17,010,019	17,008,539	17,026,379	17,840
Intergovernmental	2,892,200	2,892,200	2,695,842	(196,358)
Revenues from Utilities	184,239,975	184,239,975	196,405,099	12,165,124
Charges for Services	26,794,096	26,795,577	30,029,118	3,233,541
Fines and Forfeits	12,171,665	12,171,664	11,713,073	(458,591)
Miscellaneous	10,244,462	10,195,381	10,758,387	563,006
Transfers from other funds	5,212,686	14,174,639	15,348,182	1,173,543
Amounts Available for Appropriation	591,311,068	600,222,080	627,684,032	27,461,952
Charges to Appropriations (outflows):				
General Government	57,503,972	77,710,026	54,214,920	23,495,106
Public Safety	365,593,474	378,061,807	376,925,001	1,136,806
Public Works	14,041,263	10,637,869	10,656,685	(18,816)
Health Services	15,811,378	12,911,242	13,409,924	(498,682)
Sanitation	2,536,970	2,535,618	2,380,287	155,331
Welfare	17,366,033	16,988,837	16,480,979	507,858
Culture and Recreation	62,675,537	62,463,275	57,918,951	4,544,324
Economic Development and Opportunity	19,126,474	22,863,663	8,043,283	14,820,380
Transfers to other funds	72,785,414	76,111,164	76,440,760	(329,596)
Total Charges to Appropriations	627,440,515	660,283,501	616,470,790	43,812,711
Excess (Deficiency) of Resources Over (Under) Charges to Appropriations	(36,129,447)	(60,061,421)	11,213,242	71,274,663
Fund Balance Allocation	36,129,447	60,061,421	(11,213,242)	(71,274,663)
Excess (Deficiency) of Resources Over (Under) Charges to Appropriations	$ 0	$ 0	$ 0	$ 0

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Sources/inflows of resources:	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule.	$ 627,684,032
Differences - budget to GAAP:	
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.	(15,348,182)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds.	$ 612,335,850
Uses/outflows of resources:	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule.	$ 616,470,790
Differences - budget to GAAP:	
Encumbrances for supplies and equipment ordered but not received is reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes.	(4,155,441)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	(76,440,760)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds.	$ 535,874,589

General Fund Budgetary Information

The City Charter establishes requirements for the adoption of budgets and budgetary control. Under provisions of the Charter, expenditures of each City function and activity within individual funds cannot legally exceed the final budget approved by the City Council. Amendments to line items within a departmental budget may be initiated by Department Directors.

The City prepares an annual budget for the General Fund on a modified accrual basis which is consistent with generally accepted accounting principles. The annual budgetary data reported for the General Fund represents the original appropriation ordinance and amendments thereto as adopted by the City Council, adjusted for encumbrances outstanding at the beginning of the fiscal year. All annual appropriations lapse at fiscal year end.

City of San Antonio
Texas

Pension Schedules

REQUIRED SUPPLEMENTARY INFORMATION - (UNAUDITED)
SCHEDULES OF FUNDING PROGRESS
LAST THREE FISCAL YEARS

FIRE AND POLICE PENSION PLAN--CITY OF SAN ANTONIO

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
10-01-03	$ 1,429,378	$ 1,718,262	$ 288,884	83%	$ 191,647	151%
10-01-02	1,341,274	1,630,434	289,160	82%	183,686	157%
10-01-01	1,285,936	1,539,932	253,996	84%	179,554	141%

TEXAS MUNICIPAL RETIREMENT SYSTEM--CITY OF SAN ANTONIO

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	UNIT CREDIT ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL (1)	UAAL AS A PERCENTAGE OF COVERED PAYROLL
12-31-03	$ 451,071	$ 602,927	$ 151,856	75%	$ 192,896	79%
12-31-02	436,046	566,203	130,157	77%	197,678	66%
12-31-01	412,867	532,821	119,954	78%	189,495	63%

CITY PUBLIC SERVICE ALL EMPLOYEE PLAN

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	UNIT CREDIT ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
01-01-03	$ 783,000	$ 748,700	$ (34,300)	105%	$ 186,700	(18)%
01-01-02	758,200	691,800	(66,400)	110%	180,300	(37)%
01-01-01	713,600	643,500	(70,100)	111%	165,300	(42)%

NOTES: (1) Abstracted from City payroll records.

(amounts are expressed in thousands)

(unaudited - see accompanying accountants' report)

REQUIRED SUPPLEMENTARY INFORMATION - (UNAUDITED)
SCHEDULES OF FUNDING PROGRESS
LAST THREE FISCAL YEARS

SAN ANTONIO WATER SYSTEM - TMRS

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	UNIT CREDIT ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
12-31-03 (2)	$ 0	$ 0	$ 0		$ 0	
12-31-02	46,492	57,635	11,143	81%	51,889	21%
12-31-01	44,613	55,201	10,588	81%	51,958	20%

SAN ANTONIO WATER SYSTEM - PMLIC

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
01-01-03	$ 42,827	$ 52,602	$ 9,775	81%	$ 55,364	18%
01-01-02	39,270	45,947	6,677	85%	51,303	13%
01-01-01	31,341	40,797	9,456	77%	51,050	19%

(2) Balances for 12/31/03 not available

(amounts are expressed in thousands)

(unaudited - see accompanying accountants' report)

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APPENDIX C

FORM OF OPINION OF CO-BOND COUNSEL

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Fulbright & Jaworski L.L.P.
300 Convent Street, Suite 2200
San Antonio, Texas 78205

Escamilla & Poneck, Inc.
711 Navarro, Suite 100
San Antonio, Texas 78205

May 9, 2006

FINAL

IN REGARD to the authorization and issuance of the "City of San Antonio, Texas General Improvement Forward Refunding Bonds, Series 2006" (the *Bonds*), dated December 1, 2004, in the aggregate principal amount of $33,090,000, we have reviewed the legality and validity of the issuance thereof by the City of San Antonio, Texas (the *City*). The Bonds are issuable in fully registered form only, in denominations of $5,000 or any integral multiple thereof, and have stated maturities of August 1 in each of the years 2009 through 2016. The Bonds are not subject to redemption prior to stated maturity. Interest on the Bonds accrues from the dates, at the rates, in the manner, and is payable on the dates, all as provided in the ordinance authorizing the issuance of the Bonds (the *Ordinance*).

WE HAVE SERVED AS CO-BOND COUNSEL for the City solely to pass upon the legality and validity of the issuance of the Bonds under the laws of the State of Texas, the defeasance and discharge of the City's obligations being refunded by certain proceeds of the Bonds, and with respect to the exemption of the interest on the Bonds from federal income taxes and for no other purpose. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the City. We express no opinion and make no comment with respect to the sufficiency of the security for or the marketability of the Bonds. Our role in connection with the City's Updated Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

WE HAVE EXAMINED, and in rendering the opinions herein we rely upon, original or certified copies of the proceedings of the City Council of the City in connection with the issuance of the Bonds, including the Ordinance and the Escrow and Trust Agreement (the *Escrow Agreement*) between the City and JPMorgan Chase Bank, National Association, Dallas, Texas (the *Escrow Agent*); the special report of Grant Thornton LLP, Minneapolis, Minnesota, Certified Public Accountants (the *Accountants*); customary certifications and opinions of officials of the City; certificates executed by officers of the City relating to the expected use and investment of proceeds of the Bonds and certain other funds of the City, and to certain other facts within the knowledge and control of the City; and such other documentation, including an examination of the Bond executed and delivered initially by the City, which we found to be in due form and properly executed, and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements contained in such certificates. We express no opinion concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

Legal Opinion of Fulbright & Jaworski L.L.P. and Escamilla and Poneck, Inc. in connection with the authorization and issuance of "CITY OF SAN ANTONIO, TEXAS GENERAL IMPROVEMENT FORWARD REFUNDING BONDS, SERIES 2006"

BASED ON OUR EXAMINATION, IT IS OUR OPINION that the Bonds have been duly authorized and issued in conformity with the laws of the State of Texas now in force and that the Bonds are valid and legally binding obligations of the City enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. The Bonds are payable from the levy of an ad valorem tax, within the limitations prescribed by law, upon all taxable property in the City.

BASED ON OUR EXAMINATION, IT IS FURTHER OUR OPINION that the Escrow Agreement has been duly authorized, executed, and delivered by the City and, assuming due authorization, execution, and delivery thereof by the Escrow Agent, is a valid and binding obligation, enforceable in accordance with its terms (except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity), and that the outstanding obligations refunded, discharged, paid, and retired with certain proceeds of the Bonds have been defeased and are regarded as being outstanding only for the purpose of receiving payment from the funds held in trust with the Escrow Agent, pursuant to the Escrow Agreement and the ordinance authorizing their issuance, and in accordance with the provisions of Chapter 1207, as amended, Texas Government Code. In rendering this opinion, we have relied upon the verification by the Accountants of the sufficiency of cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement for the purposes of paying the outstanding obligations refunded and to be retired with the proceeds of the Bonds and the interest thereon.

IT IS FURTHER OUR OPINION THAT, assuming continuing compliance after the date hereof by the City with the provisions of the Ordinance and in reliance upon the representations and certifications of the City made in a certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Bonds and the report of the Accountants, under existing statutes, regulations, published rulings, and court decisions (1) interest on the Bonds will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the *Code*), of the owners thereof for federal income tax purposes, pursuant to section 103 of the Code, and (2) interest on the Bonds will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations.

WE CALL YOUR ATTENTION TO THE FACT THAT, with respect to our opinion in clause (2) above, interest on all tax-exempt obligations, such as the Bonds, owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation, other than an S corporation, a mutual fund, a financial asset securitization investment trust, a real estate mortgage investment conduit or a real estate investment trust. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code will be computed.

WE EXPRESS NO OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

OUR OPINIONS ARE BASED on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

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APPENDIX D

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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FGIC

Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Municipal Bond
New Issue Insurance Policy

Issuer:	**Policy Number:**
	Control Number: 0010001
Bonds:	**Premium:**

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to U.S. Bank Trust National Association or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all

FGIC

Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Municipal Bond New Issue Insurance Policy

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principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

U.S. Bank Trust National Association, acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

Authorized Officer

FGIC

Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Endorsement
To Financial Guaranty Insurance Company Insurance Policy

Policy Number: **Control Number:** 0010001

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

SPECIMEN

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent